OVERVIEW

We are a leading market player in the PRC focusing on the production of medium to large scale[(1)] asphalt mixing plants. We specialise in the research and development, design, manufacturing and sale of asphalt mixing plants and we provide one-stop customised solutions to our customers. Our products are used for the production of asphalt mixtures, an essential material used in road pavements for asphalt road construction and maintenance projects. According to the CCID Report, in 2013, based on the sales volume of medium to large scale asphalt mixing plants manufactured in the PRC, we ranked second with a market share of approximately 13.8%[(2)]. According to the CCID Report, the asphalt mixing plants in the PRC can be divided into small scale, medium scale and large scale plants based on the following factors:

(a) Application in road construction or maintenance projects

- Medium to large scale asphalt mixing plants are mainly used in the construction of new expressways, being the top-tier highway in the PRC
- Medium scale asphalt mixing plants are also used in the new construction of new first grade highways and second grade highways as well as the construction and maintenance of major urban roads
- Small scale asphalt mixing plants are mainly used in other road construction or maintenance projects where the requirements for the quality of asphalt mixtures are less stringent and the volume of the asphalt mixtures required is also lower

(b) Level of technical capabilities

The Technical Specification for Construction of Highway Asphalt Pavement* (公路瀝青路面施工技術規範) promulgated by the Ministry of Transport of the PRC in 2004 has set a higher standard for asphalt mixtures to be used in the construction of expressways and first grade highways. According to the CCID Report, in order to manufacture asphalt mixing plants that meets such high quality standard and specific technical criteria, asphalt mixing plant manufacturers must equip with advanced technical capabilities and expertise to produce, in particular, the following systems which are core to the medium to large scale asphalt mixing plants:

- Drying system
- Vibrating screening system
- Mixing system
- Automated control system that controls the entire operation of the plants

(1) According to the CCID Report, 3000 model series asphalt mixing plants are generally regarded as medium scale asphalt mixing plants in the PRC, 4000 model series or above asphalt mixing plants are generally regarded as large scale asphalt mixing plants in the PRC and 2000 model series or below are generally regarded as small scale asphalt mixing plants in the PRC.

(2) According to the CCID Report, in 2013, there were 950 units of asphalt mixing plants manufactured in the PRC that were sold by domestic and international asphalt mixing plant manufacturers, 298 units of which were medium to large scale asphalt mixing plants and 652 units of which were small scale asphalt mixing plants. Based on 41 units of medium to large scale asphalt mixing plants manufactured and sold by us in 2013, our market share was approximately 13.8%.

* The English translation of the name is for reference only.

Through our research and development efforts, we have obtained 22 patents and 12 software copyrights in relation to these four major components and systems in our asphalt mixing plants. Please refer to the paragraphs headed "Our Products and Services – Products" of this section for details of each of these major components and systems. Based on the CCID Report, we are one of the few manufacturers in the PRC who are capable of manufacturing on a mass production scale 5000 model series asphalt mixing plants, currently the largest asphalt mixing plant by production capacity produced on a mass production scale in the PRC. Our asphalt mixing plants are able to produce asphalt mixtures that meet the requirements and standards for the construction of expressways, being the top-tier highways in the PRC. Our products play an important role in expressway and highway construction and municipal road maintenance projects in approximately 30 provinces, municipalities and autonomous regions in the PRC. We were one of the suppliers of asphalt mixing plants in a number of major construction projects in the PRC, including the Beijing-Tibet Highway* (京藏高速), Beijing-Hong Kong-Macau Highway* (京港澳高速), Jiaozhou Bay Bridge* (膠州灣大橋) and Hangzhou Bay Bridge* (杭州灣大橋). All of these attest to our technical capacities and strengthen our leading position in the industry. During the Track Record Period, our revenue generated from the sale of medium to large scale asphalt mixing plants, accounted for approximately 84.0%, 85.1% and 91.2% of our revenue from the sale of asphalt mixing plants, respectively.

We offer a broad range of products covering small to large scale asphalt mixing plants to cater to the needs of different customers and the scales of their projects. The asphalt mixtures produced by our asphalt mixing plants can be used in the construction and maintenance of all levels of roads and highways in the PRC. Our products can broadly be divided into two main categories: (i) conventional hot-mix asphalt mixing plant ("**Conventional Plant**") and (ii) hot-mix asphalt mixing recycling plant ("**Recycling Plant**"). Our Conventional Plants are able to produce regular asphalt mixtures which contain, among others, bitumen, aggregates and fillers. Our Recycling Plants are able to produce (i) recycled asphalt mixtures which contain a mixture of reclaimed asphalt pavement ("**RAP**") and new materials such as aggregates, fillers and bitumen; and (ii) regular asphalt mixtures. The designed RAP added capacity of our Recycling Plants is between the range of 15% to 60%. The designed RAP added capacity indicates the designed percentage of RAP contained in the recycled asphalt mixtures produced by an asphalt mixing plant. For example, recycled asphalt mixtures produced by an asphalt mixing plant with 50% RAP added capacity contains 50% RAP. RAP is a useful alternative to new materials because it reduces the need to use new materials in the production of recycled asphalt mixtures, thereby achieving the objectives of resources recycling as encouraged by the PRC government's policies and reduces the cost of new materials in the production of asphalt mixtures. According to CCID Report, as up to 80% of the bitumen in the RAP can be recycled and use in the production of recycled asphalt mixtures, there could be up to 80% saving of the bitumen in the RAP portion of the materials in the recycled asphalt mixtures. In addition to offering a wide range of asphalt mixing plants, we also provide equipment modification services to customers with existing asphalt mixing plants, sale of spare parts and components of our asphalt mixing plants and the leasing of our asphalt mixing plants by way of operating leases.

We are committed to developing and promoting our Recycling Plants as we expect this to be a major area of growth for the industry. According to the CCID Report, it is estimated that hot-mix recycling technology will be adopted in a majority of roads maintenance projects in the PRC in the next three to five years, which is also the technology adopted by us in our Recycling Plants. In light of the PRC government's policies encouraging the use of pavement recycling maintenance technologies, we expect that the demand for Recycling Plants will increase. We have been the first to develop and launch a number of Recycling Plants in the PRC. According to the CCID Report, we were the first manufacturer to manufacture and launch Recycling Plants with 15% designed RAP added capacity and Double Drum Recycling Plants with 50% designed RAP added capacity in the PRC in 2003. We were also the first to manufacture and launch the Recycling Ring Recycling Plants in the PRC in 2009 and we developed the first Monoblock Recycling Plant in the PRC in 2014, according to the CCID Report. For details description of our Recycling Plants, please refer to the section headed "Our Products and Services – Hot-mix Asphalt Mixing Recycling Plants" in this section. The revenue generated from the sale of Recycling Plants has increased substantially in the past few years and accounted for approximately 16.3%, 25.8% and 48.5% of our revenue from the sale of asphalt mixing plants for the years ended 31 December 2012, 2013 and 2014, respectively.

We strive to manufacture asphalt mixing plants with environmental-friendly and energy saving features which is able to reduce the level of energy consumption and emission of dust, smoke and noise. Through our continuous efforts, we have improved various parts of the asphalt mixing plants to achieve such goals. For instance, we have developed a two-tier dust collection and closed-loop temperature control system to suppress dust emission of our asphalt mixing plants. Our asphalt mixing plants are able to maintain their dust emission level at approximately 70 mg/Nm^3 or less, which is lower than the requirement under the PRC national standard of 100 mg/Nm^3. In addition, our asphalt mixing plants are able to maintain its fume blackness level at Ringelmann level 1 and the noise in the control room (NCC) is generally lower than 70 dB. According to the CCID Report, these standards are amongst the highest in terms of environmental protection in the PRC.

Our customers are mainly road construction companies, road construction machinery distributors and finance leasing companies. We sell our products to our direct customers, mainly road construction companies, directly and through our distributors acting as sales agent. During the Track Record Period, our sales to direct customers accounted for approximately 91.2%, 85.0% and 83.1% of revenue from the sale of asphalt mixing plants, respectively. Over the years, we have sold over 300 asphalt mixing plants to customers mainly in the PRC and some in overseas emerging markets and developed countries, including Australia, Russia, India and certain African countries. Revenue generated from sales to customers in the PRC (excluding indirect export) accounted for 78.1%, 77.2% and 85.3% of our revenue from the sale of asphalt mixing plants for the years ended 31 December 2012, 2013 and 2014, respectively. Expanding our business into international markets has always been one of our key business strategies. During the Track Record Period, we sold our products overseas via direct as well as indirect export sales. For direct export sales, we sold our products overseas to our customers directly or through distributors acting as sales agents in overseas countries. For indirect export sales, we sold our products to our customers in the PRC who were undertaking road construction projects overseas. For the years ended 31 December 2012, 2013 and 2014, the sale of our products to the overseas markets (including direct and indirect export) represented approximately 21.9%, 22.8% and 14.7% of our revenue from the sale of asphalt mixing plants, respectively. The decrease in the percentage of our revenue from our sales to

overseas markets in 2014 was mainly due to the decrease in number and average selling price of units of asphalt mixing plants sold via indirect and direct export sales to Russia. Our directors confirm that the decrease in our revenue from indirect and direct export sales to Russia in 2014 was not due to the recent depreciation of Euro or Ruble.

In 2012 and 2013, the majority of our revenue generated from the sale of small scale asphalt mixing plants was generated through direct and indirect export sales. In 2014, approximately 47.9% of our revenue generated from the sale of small scale asphalt mixing plants was generated through direct and indirect export sales.

We market our products globally under our "D&G" brand name, which we believe have strong customer recognition and loyalty because of our track record of providing high quality and good performance products under such brand name. We received many awards and recognitions from authoritative associations or institutions and we have been appointed to hold positions in various societies and associations in the asphalt mixing plant industry. For further details, please refer to the paragraphs headed "Competitive Strengths" and "Awards and Honours" in this section. Additionally, we have obtained various domestic and international certifications, including the ISO9001:2008 Quality Management System certification, ISO14001:2004 Environmental Management System certification and the OHSAS 18001:2007 Occupational Safety and health management system certification, as well as the CE mark in Europe, all of which evidenced our stringent quality control practices. According to the CCID Report, we were the first and one of the few asphalt mixing plant manufacturers in the PRC that have acquired the CE mark, a certification which is recognised worldwide.

We place great emphasis on our research and development capabilities, as we believe our success is largely dependent on technology and product innovation. Leveraging on our strong research and development capabilities, we have developed various model series of asphalt mixing plants and key components over the years. According to the CCID Report, the 4000 and 5000 model series asphalt mixing plants which we developed and launched in 2003 and 2009 respectively were the first 4000 and 5000 model series Conventional Plants launched in the PRC, and we were also the first to develop and launch various model series of Recycling Plants since 2003. We position our Group as an innovative enterprise with focuses on technological innovation and research and development. We always adhere to the idea of striving for advanced technology ahead of our competitors. As at the Latest Practicable Date, we had (i) 39 registered patents in the PRC, of which 3 were invention patents and 36 were utility model patents; (ii) 2 invention patents pending registration in the PRC; and (iii) 22 software copyrights in the PRC. For details of these intellectual property rights, please refers to paragraph headed "Appendix IV – Statutory and General Information – Intellectual property rights of our Group" in this document. During the Track Record Period, we collaborated with a number of leading research institutions in the PRC. For example, we began our collaboration with the Institute of Tsinghua University, Hebei* (河北清華發展研究院) to establish the "Resources Recycling Intelligent Equipment Technology Institute, the Institute of Tsinghua University, Hebei and D&G* (河北清華發展研究院德基資源循環利用智能裝備技術研究所)" in 2012 and we entered into a proposal regarding the project on the establishment of the "Hebei Asphalt Pavement Intelligent Equipment Technology Research Centre* (河北省瀝青路面智能裝備工程技術研究中心)" jointly with The Research Institute of Highway, the Ministry of Transport* (交通運輸部公路科學研究所) and the Institute of Tsinghua University, Hebei* (河北清華發展研究院) in 2014. For further details, please refer to the paragraphs headed "Research and Development" in this section. In addition, we were awarded the "Technological Innovation Award" (技術創新獎) in 2009 by the China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會).

Our revenue for the years ended 31 December 2012, 2013 and 2014 was approximately RMB364.3 million, RMB412.3 million and RMB444.3 million, respectively, representing a CAGR of approximately 10.4%. Our profit for the years ended 31 December 2012, 2013 and 2014 was approximately RMB49.7 million, RMB72.5 million and RMB83.2 million, respectively, representing a CAGR of approximately 29.3%.

We have over 117,635.38 sq.m. of manufacturing facilities in Langfang, Hebei, PRC, with a designed annual production capacity of 50 sets of asphalt mixing plants. Please refer to the paragraph headed "Manufacturing Facilities and Processes" of this section for details.

COMPETITIVE STRENGTHS

Leading medium to large scale asphalt mixing plant manufacturer and service provider in the PRC with outstanding track record and strong brand recognition

We are a leading market player in the PRC focusing on the production of medium to large scale[(1)] asphalt mixing plants. Over the past 10 years, we have established stable and long-term business partnerships with many domestic and international customers by providing outstanding quality products, reliable system performance and timely technical services to our customers. These have provided a solid foundation for our brand building which is reflected in our market share in the asphalt mixing plant industry in the PRC. According to the CCID Report, in 2013, based on the sales volume of medium to large scale asphalt mixing plants manufactured in the PRC, we ranked second with a market share of approximately 13.8%[(2)].

We develop, design and manufacture a wide range of Conventional Plants and Recycling Plants to meet the different needs of our customers. According to the CCID Report, we are one of the few asphalt mixing plant manufacturers in the PRC which are capable of producing on a mass production scale 5000 model series asphalt mixing plants, currently the largest asphalt mixing plant by production capacity produced on a mass production scale in the PRC. The fact that we possess the technical capabilities and skills needed to develop and mass produce such product attests to our outstanding research and development capabilities and strengthens our leading position in the industry. We were one of the suppliers of asphalt mixing plants in a number of key construction projects in the PRC, for example, the construction of the Beijing-Tibet Highway* (京藏高速), Beijing-Hong Kong-Macau Highway* (京港澳高速), Jiaozhou Bay Bridge* (膠州灣大橋) and Hangzhou Bay Bridge* (杭州灣大橋). Hangzhou Bay Bridge is one of the longest trans-oceanic bridges in the world. Our 4000 model series Conventional Plant was used for the construction of the Hangzhou Bay Bridge in 2007 and produced approximately a total of 300,000 tonnes of asphalt mixture.

(1) According to the CCID Report, 3000 model series asphalt mixing plants are generally regarded as medium scale asphalt mixing plants in the PRC, 4000 model series or above asphalt mixing plants are generally regarded as large scale asphalt mixing plants in the PRC and 2000 model series or below are generally regarded as small scale asphalt mixing plants in the PRC.

(2) According to the CCID Report, in 2013, there were 950 units of asphalt mixing plants manufactured in the PRC that were sold by domestic and international asphalt mixing plant manufacturers, 298 units of which were medium to large scale asphalt mixing plants and 652 units of which were small scale asphalt mixing plants. Based on 41 units of medium to large scale asphalt mixing plants manufactured and sold by us in 2013 in the PRC, our market share was approximately 13.8%.

As recognition of our expertise and our leading position in the industry, we have been appointed to hold senior positions in various industry associations. For example, we are a council member of the PRC Construction Machinery Association* (中國工程機械工業協會), the Vice President of the China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會), the Vice President of the China Highway Construction Machine Branch* (中國公路學會築路機械分會) and the Vice President of the Highway Engineering Materials Branch of the PRC Association of Circular Economy* (中國循環經濟協會公路工程材料循環利用分會). In addition, our "D&G" brand is recognised as a "Well-known Trademark of Hebei Province" (河北省著名商標). We have also been awarded by the World Construction Machinery Industry* (全球工程機械產業大會) the "China Top 50 Construction Machinery Manufacturers"* (中國(本土)工程機械製造商50強) for four consecutive years since 2011. In May 2012, we were rated as the "Outstanding Contribution Member"* (突出貢獻理事單位) by the China Highway Construction Machine Branch* (中國公路學會築路機械分會). For details of our awards, please refer to the paragraph headed "Awards and Honours" in this section.

We believe that our operating history, strong track record and commitment to innovate and improve, will position us at the forefront of technological development, help us achieve strong brand recognition and facilitate rapid customer acceptance of our new products, which will allow us to maintain a leading position in the PRC and enhance our reputation overseas.

Strong research and development capabilities

We believe our success is largely attributed to our strong in-house research and development capabilities which have led to our rapid growth. We emphasise investment in research and development and have a well-established system to manage technological innovation.

We have been the first to develop and launch a number of Conventional Plants and Recycling Plants in the PRC. According to the CCID Report, we were the first manufacturer to manufacture and launch Recycling Plant with 15% designed RAP added capacity and Double Drum Recycling Plant with 50% designed RAP added capacity in the PRC in 2013. Moreover, we were the first to manufacture and launch the Recycling Ring Recycling Plants in the PRC in 2009 and we developed the first Monoblock Recycling Plant in the PRC in 2014. In addition, the 4000 and 5000 model series asphalt mixing plants which we developed and launched in 2003 and 2009 respectively were the first 4000 and 5000 model series Conventional Plants launched in the PRC.

In 2004, we introduced our new invention, the "DG Leap" automated control system, to the market. It is a real-time production management system designed by us which can automatically control the operation of the asphalt mixing plant, collect and analyse production data and provide maintenance recommendations to customers in a timely manner. A remote monitoring system was subsequently developed and added to the "DG Leap" automated control system in 2010. Through the monitoring platform, our customers can observe the real-time status of a plant, download and monitor all the production data and report, and even monitor the job site from remote location. Furthermore, we can diagnose and analyse a problem or potential error, repair and provide maintenance services to our customers remotely to provide preventative servicing and thus improve the operating efficiency of the plant.

In 2009, we were awarded the "Technological Innovation Award" (技術創新獎) by the China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會).

We have a dedicated in-house research and development team which is responsible for the analysis and design, test trial and improvement of technical performance of new products as well as process customisation in order to provide customised solutions to our customers. For the years ended 31 December 2012, 2013 and 2014, our research and development expenditures were approximately RMB13.4 million, RMB13.9 million and RMB14.4 million, respectively.

As a result of our research and development efforts, we own a number of patents and software copyrights. As at the Latest Practicable Date, we had (i) 39 registered patents in the PRC, of which 3 were invention patents and 36 were utility model patents; (ii) 2 invention patents pending registration in the PRC; and (iii) 22 software copyrights in the PRC. For details of these intellectual property rights, please refers to paragraph headed "Appendix IV – Statutory and General Information – Intellectual property rights of our Group" in this document.

We also collaborate with a number of leading research institutions in the PRC. For example, we began our collaboration with the Institute of Tsinghua University, Hebei* (河北清華發展研究院) to establish the Resources Recycling Intelligent Equipment Technology Institute, the Institute of Tsinghua University, Hebei and D&G* (河北清華發展研究院德基資源循環利用智能裝備技術研究所) in 2012 and we entered into a proposal regarding the project on the establishment of the Hebei Asphalt Pavement Intelligent Equipment Technology Research Centre* (河北省瀝青路面智能裝備工程技術研究中心) ("**Research Centre**") jointly with The Research Institute of Highway, the Ministry of Transport* (交通運輸部公路科學研究所) and the Institute of Tsinghua University, Hebei* (河北清華發展研究院) in 2014. For further details of our collaboration with third party institutions, please refer to the paragraphs headed "Research and Development" in this section. Our collaborative efforts with these institutions not only give us access to advanced engineering talent and testing facilities, but also enable us to keep pace with the latest industry trends and development.

Broad and diversified portfolio of high-quality products and comprehensive services

We offer a broad range of products covering small to large scale asphalt mixing plants to cater to the needs of different customers and the scales of their projects. The asphalt mixtures produced by our asphalt mixing plants can be used in the construction and maintenance of all levels of roads and highways in the PRC. Our products can broadly be divided into two main categories: (i) Conventional Plant and (ii) Recycling Plant. Our Conventional Plants are able to produce regular asphalt mixtures which contain, among others, bitumen, aggregates and fillers. Our Recycling Plants are able to produce (i) recycled asphalt mixtures which contain a mixture of RAP and new materials such as aggregates, fillers and bitumen; and (ii) regular asphalt mixtures. The designed RAP added capacity of our Recycling Plants is between the range of 15% to 60%. The designed RAP added capacity indicates the designed percentage of RAP contained in the recycled asphalt mixtures produced by an asphalt mixing plant. For example, recycled asphalt mixtures produced by an asphalt mixing plant with 50% RAP added capacity contains 50% of RAP. RAP is a useful alternative to new materials because it reduces the need to use new materials in the production of asphalt mixtures, thereby achieving the objectives of resources recycling as encouraged by the PRC Government's policies and reduces the cost of new materials in the production of asphalt mixtures. According to CCID Report, as up to 80% of the bitumen in the RAP can be recycled and use in the production of recycled asphalt mixtures, there could be up to 80% saving of the bitumen in the RAP portion of the materials in the recycled asphalt mixtures. We were the first to manufacture and launch the Recycling Ring Recycling Plants in the PRC in 2009 and the Recycling Ring series are our best selling Recycling Plants.

In addition, as part of our valued-added solutions and our efforts to provide "one-stop" services to our customers, we provide professional services of the installation, commissioning, maintenance, training, technical consultancy and support, spare parts and components provision and equipment modification and upgrading as well as other after-sales services to overseas and domestic customers. We also offer operating lease of our products to our customers in addition to the sale of components and spare parts of our asphalt mixing plants in order to meet the requirements of our customers' business at different stages. Leveraging on our broad range of product offerings, we are able to satisfy the various needs of our customers and provide them with comprehensive solutions, making their purchases and management of our products easier and more convenient and thereby building stronger bonds with our customers and cementing their loyalty.

Asphalt mixing plants produce asphalt mixtures, an essential material for asphalt road construction and maintenance. The stability and reliability of an asphalt mixing plant has a significant impact on the progress and final quality of a road construction or maintenance project. We strive to develop and sell premium quality products that will meet the expectations of our customers. We source many of our raw materials, components and parts from international suppliers with well-known brand names to enhance the reliability of our products. We have implemented strict quality control systems for our products. We have a quality control department and an inter-department quality control system to oversee the overall quality of our products and services. We employ standardised work processes and comprehensive quality control systems throughout our supply chain and manufacturing process. This allows us to quickly detect any quality issues thereby minimising any associated costs. Our stringent quality control practices are evidenced by the domestic and international certifications we received. For example, we have obtained the ISO9001:2008 Quality Management System certification and the CE mark, a certification which is recognised worldwide. According to the CCID Report, we were the first and one of the few asphalt mixing plant manufactures in the PRC that have acquired the CE mark.

Solid customer base and diversified sales channels in the PRC and abroad

We are dedicated to provide premium products and services to our customers. We maintain good and stable relationships with our major customers and have generally cooperated with them for a period of up to 6 years. We believe that we have gained loyalty from our customers. During the Track Record Period, we generated a significant portion of sales from repeated customers. Revenue generated from repeated customers during the Track Record Period was RMB154.7 million, RMB100.4 million and RMB93.9 million, respectively, representing 47.7%, 28.6% and 24.4% of our revenue from the sale of asphalt mixing plants, respectively.

While there is intense competition in our product lines, we continue to maintain our position as one of the leading market players in the PRC while building a strong international presence. We have established sales and distribution networks in the PRC and overseas markets. Over the years, we have sold over 300 units of asphalt mixing plants to customers in the PRC and overseas emerging markets and developed countries. including Australia, Russia, India and certain countries in Africa. During the Track Record Period, we sold our products to our customers within the PRC directly as well as indirectly through our distributors acting as sales agents in the PRC. We also sold our products overseas via direct as well as indirect export sales. For direct export sales, we sold our products overseas to our customers directly or through distributors acting as sales agents. For indirect export sales, we sold our products to our customers in the PRC who undertook road construction projects overseas. As at the Latest Practicable Date, we had 9 distributors across different provinces in the PRC and 5 distributors in total covering Russia, Poland and certain countries in Africa.

Our sales teams are spread out in the major cities of the PRC, including Shanghai, Beijing and Guangzhou as well as our headquarters in Langfang, Hebei, to capture customers at different geographical locations. We also offer an extensive range of after-sales services on an easily accessible basis worldwide. Upon purchase of our products, we offer our customers on-site supervision and guidance on the installation, assembly and commissioning of our products, on-site training for the use and maintenance of our products and subsequent preventive maintenance and diagnostics. Our customers can also contact us through our after-sales service hotline. We strive to respond to our customers' queries or requests within 24 hours and our service personnel will endeavour to resolve the issues through phone calls. We will assign our service personnel located nearest to our customer's site to resolve the issues if they cannot be resolved over the phone or the remote diagnostic system. We believe that our ability to manage our sales and customer networks and respond to customers' queries or requests in a timely manner enable us to efficiently penetrate local and overseas markets, capture sales opportunities and address the needs of our customers and maintain loyalty and good relationship with our customers.

Well positioned to capture growth opportunities from PRC government policies such as " Belt and Road" development strategy and the environmental protection and resources recycling

According to the CCID Report, the total mileage of the highways in the PRC will reach approximately 4.5 million km by 2015 and the majority of expressways, first grade highways and second grade highways are paved with asphalt mixtures. According to the CCID Report, by 2015, the total mileage of PRC highways which are paved with asphalt mixtures accounted for approximately 15.0% of the total mileage the PRC highways, equivalent to approximately 680,000 km.

In the Twelfth Five-Year Plan, the PRC will continue to extend its road network. The government's freeway development plan calls largely for the construction of 7 radial lines, 9 longitudinal lines and 18 transverse lines, with an available mileage of 108,000 kilometres, basically covering cities with a population of over 200,000. The government also intends to strengthen the improvement of national and provincial trunk highways, to increase the proportion of second grade highways or above to over 70% and to connect those county towns with appropriate conditions to second grade highways or above. According to the Engineering Technical Standards of Highways*（《公路工程技術標準》）published by the Ministry of Transport of the PRC, the highways in the PRC highway network are separated into 5 different categories, namely expressway, first grade highway, second grade highway, third grade highway and fourth grade highway. The Twelfth Five-Year Plan also sets out some basic principles to guide the development of the road maintenance industry, which includes, amongst others, the PRC government's urging of the industry to ensure that at least 17% of the highways, first grade and second grade highways to undergo regular maintenance. It also emphasises on the development of technologies to control the whole process of waste recycling, theoretical research of waste cleaning and utilisation, as well as innovation in these areas and cultivation of professionals.

The Twelfth Five-Year Plan also encourages environmental protection by recommending and supporting the usage of recycled asphalt mixtures in asphalt pavement maintenance and construction work. Furthermore, the 2014 version of the Supportive Field of National Major New Product Plan* (《國家重點新產品計劃支持領域》2014年) was issued to promote asphalt recycling equipment. We believe that this policy directive provides significant potential for further growth in asphalt mixing plants with recycling features.

On 28 March 2015, the NDRC, in conjunction with the PRC's Foreign Ministry and Commerce Ministry issued the action plan for the "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st – Century Maritime Silk Road" (《推動共建絲綢之路經濟帶和21世紀海上絲綢之路的願景與行動》) to promote orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets by enhancing connectivity of Asian, European and African continents and their adjacent seas through jointly building the Silk Road Economic Belt and 21st – Century Maritime Silk Road (the "**Belt and Road**") with other countries (the "**Initiative**"). The Initiative is open to all countries and international and regional organizations for engagement, so that the results of the concerted efforts will benefit wider areas. It covers, but is not limited to, the area of the ancient Silk Road. The Initiative further mentioned that the PRC government welcomes companies from all countries to invest in China, and encourage Chinese enterprises to participate in infrastructure construction in other countries along the Belt and Road, and make industrial investments there. The Initiative encourages countries to work in concert to improve the region's infrastructure, and put in place a secure and efficient network of land, sea and air passages, lifting their connectivity to a higher level. Countries along the Belt and Road should improve the connectivity of their infrastructure construction plans and technical standard systems, jointly push forward the construction of international trunk passageways, and form an infrastructure network connecting all sub-regions in Asia, and between Asia, Europe and Africa step by step. At the same time, efforts should be made to promote green and low-carbon infrastructure construction and operation management, taking into full account the impact of climate change on the construction. With regard to transport infrastructure construction on land, the Initiative will focus on the key passageways, junctions and projects, and give priority to linking up unconnected road sections, removing transport bottlenecks, advancing road safety facilities and traffic management facilities and equipment, and improving road network connectivity. Eighteen provinces and cities in the PRC have been identified as the key construction areas of the Belt and Road, including Xinjiang, Shaanxi, Gansu, Ningxia, Qinghai, Inner Mongolia, Heilongjiang, Jilin, Liaoning, Guangxi, Yunnan, Tibet, Fujian, Guangdong, Zhejiang, Hainan, Shanghai and Chongqing.

According to the CCID Report, between October 2014 and February 2015, NDRC has approved 62 infrastructure projects involving investment of more than RMB1.5 trillion. It has been reported that as part of the "Belt and Road" development strategy, the PRC government will contribute US$40 billion to set up a Silk Road Fund to provide investment and financing support to carry out infrastructure, resources, industrial cooperation, financial cooperation and other projects related to connectivity for Asia.

In view of the various state policies supporting the expansion and maintenance of national highways as well as the emphasis on environmental protection and resources recycling, we believe that we, as one of the leading market players in the PRC, are well positioned to capture the growth opportunities for our products and services, in particular, our technical capabilities and skills to improve and develop new types of Recycling Plants.

Experienced and dedicated management team

Our management team comprises capable and experienced individuals with extensive knowledge of the asphalt mixing plant industry. Most of our Directors and senior management have at least 10 years of experience in the infrastructure, equipment and machinery industry or related industries as well as strong business skills and operational experience. For details of the qualifications and experience of our senior management, please refer to the section headed "Directors, Senior Management and Staff" of this document.

Our management team's vision and in-depth industry knowledge have enabled us to formulate and implement sound business strategies, evaluate and manage risks, anticipate changes in industry trend and capture significant market opportunities. We believe our experienced management team, with its leadership, vision and drive has been key to our success in the past and will continue to contribute to our future growth.

BUSINESS STRATEGIES

Expand production capacity to meet demands for our products

We intend to expand our production capacity to meet the demands for our products and further increase our market share in both PRC and overseas. We have faced production capacity constraints in recent years as our production facilities have been operating at maximum capacity and we have to outsource part of our production, such as non-key parts and components to subcontractors, in order to meet demands for our products. We plan to (i) expand our annual production capacity to over 80 units of asphalt mixing plants. We have filed an application with the local authority to expand our manufacturing facilities and increase our production capacity to 85 units asphalt mixing plants per year, of which up to 50 units will be Conventional Plants and/or Recycling Plants and 35 units will be Recycling Plants (the "**Construction Project**") and the Langfang Development and Reform Commission has granted its consent to the Construction Project in a notification of filing dated 25 March 2015; (ii) increase the quantity of non-key parts or components to be outsourced to subcontractors; (iii) standardise our product components in order to interchange amongst models and industrialisation of our key components; and (iv) acquire land from an Independent Third Party in the future. We expect that the land to be acquired by us will be identified by the end of the third quarter of 2015. We expect to commence the process of the acquisition of the land by the end of the fourth quarter of 2015 and complete the acquisition of the land by the end of the second quarter of 2016. We believe that the expansion of our production capacity will enable us to meet market demands for our products, increase our sales revenue and expand our market share. The total costs of our plan to expand our annual production capacity to over 80 units of asphalt mixing plants are expected to be approximately RMB100.0 million. We intend to finance the costs of expansion of manufacturing facilities by applying **[REDACTED]** of the proceeds from the **[REDACTED]**. The work to expand our production capacity will begin after Listing and is expected to be completed within 18 months after Listing.

Enhance our research and development capabilities

Our sustainable development depends upon our capabilities in technological innovation. We intend to continue to invest in our research and development platform. We plan to invest our resources in acquiring additional equipment and apparatus, upgrading software and recruiting qualified personnel to further strengthen our research and development capabilities. We also plan to expand the area of our technology research center currently located in our manufacturing facilities in Langfang, Hebei. We are currently cooperating with the Research Institute of Highway, Ministry of Transport* (交通運輸部公路科學研究所) and Institute of Tsinghua University, Hebei* (河北清華發展研究院) in several research and development projects. We intend to continue to strengthen our cooperative relationships with these organisations.

We are currently utilising our research and development capabilities to develop new technologies to introduce products with low energy consumption and environment friendly features which are in line with the market trends and high mobility products and suitable for shipping to overseas countries that could reduce the transportation cost and meet the needs of the local and overseas markets. We will focus on the research and development of core technologies including (i) equipment and technologies relating to energy saving, emission reduction, environmental protection and recycling of materials for highway construction and maintenance projects; and (ii) research and industrialisation of key components for our asphalt mixing plants. We believe that there will be a growing demand for products featuring these technologies as businesses and governments become increasingly focused on sustainable economic growth and environmental protection.

In order to improve our overall research and development capabilities and technological standard, we plan to actively apply for and participate in national, provincial and municipal research projects related to our industry. We will also actively organise technical skills training and lectures on a regular basis and invite professionals and scholars in the industry to provide seminars to our staffs from the research and development department and other departments. Furthermore, we will encourage patent applications and provide incentives to staff who have attained these achievements.

We will apply approximately **[REDACTED]** of the proceeds from the **[REDACTED]** to enhance our research and development capability involving hardware and software upgrade, including acquiring computers and testing equipment as well as upgrading our design, technology and design plan management system, and investment in research and development projects, including those relating to the development of new products. We believe that our continued enhancement in our research and development capabilities will increase our competitiveness, thereby helping us to maintain our leading position in the asphalt mixing plant industry.

Continue to promote our Recycling Plants and other new products with recycling features

We plan to promote and increase the sales of our Recycling Plant production capacities to meet growing market demands. Under the Twelfth Five-Year Plan which sets out some basic guiding principles for the development of the road maintenance industry, the PRC government urges the industry to ensure that at least 17% of the highways, first grade and second grade highways undergo regular maintenance. It also encourages environmental protection by recommending and supporting the use of recycled asphalt in asphalt pavement maintenance services. For example, the Twelfth Five-Year Plan for Transport issued by the Ministry of Transport in 2011 proposed to actively promote the recycling asphalt pavement maintenance technologies in order to reduce the emission of pollutants as well as to provide road maintenance services that will cause less impact to our environment.

The Ministry of Transport released the Guidance on Promoting Road Pavement Material Recycling* (《交通運輸部關於加快推進公路路面材料循環利用工作的指導意見》) issued in 2012 requires local transportation departments to formulate a scientific working program to clarify the objectives, key tasks and measures relating to reclaiming and recycling of used pavement materials, targeting at achieving approximately "zero wastage" of used pavement materials in the PRC by the end of 2015; at least 95% of used pavement materials should be reclaimed; at least 50% of the used pavement materials should be recycled , whereby the recycling rate in the eastern, middle and western regions of the PRC should be at least 60%, 50% and 40%, respectively and 2015. The Guideline further provides that the recycling rate of the used pavement materials in the PRC should be at least 90% by 2020. We believe that this policy provides significant growth potential for asphalt mixing plants with recycling features. Furthermore, according to the 2014 version of the Supportive Field of National Major New Product Plan* (《國家重點新產品計劃支持領域》2014年) (the "Policy") issued by the Ministry of Science and Technology, the construction waste and asphalt pavement utilisation equipment (建築廢棄物和道路瀝青資源化利用設備) were included in the list of "Equipment and New Products with Recycling Technology" (循環利用技術設備及新產品) under the "Energy-saving and Environmental Protection Industry" category of the Policy, which are eligible for state support.

We therefore expect the market demand for our recycling plant to grow. We also expect the increase of our recycling plant production capacities and developing new asphalt mixing plants with recycling features would allow us to capitalise on market opportunities and increase our market share.

Expand our sales coverage within the PRC and globally

Our plan to further expand our sales and distribution network in the PRC involves three layers of work. Firstly, we are aiming for an overall strengthening of our sales network coverage in the PRC. As at 31 December 2014, we had a total of 87 sales and marketing personnel, of which 24 were sales personnel covering approximately 30 provinces, municipalities and autonomous regions in the PRC. We plan to gradually increase our sales personnel in order to expand our sales network. We believe this will improve our market penetration and further enhance our customer support and service. Secondly, we plan to strengthen our relationships with our existing customers and distributors and form strategic alliances with certain major customers and distributors to increase our market share. Thirdly, we will place more resources in expanding our sales and distribution network in cities and provinces outside the coastal areas, especially in the north-west and south-west regions, where the road network is less developed and thus we believe there will potentially be stronger demand for asphalt mixtures in light of the recent government policies, including the Twelfth Five-Year Plan, which we believe will stimulate a faster rate of urbanisation, stronger economic growth and higher expected level of road construction activities in the near future. Please refer to "Competitive Strengths – Well positioned to capture growth opportunities from PRC government policies" such as "Belt and Road" development strategy and the environmental protection and resources recycling and "Business Strategies – Continue to promote our Recycling Plant and other new products with recycling features" in this section for details of the recent government policies.

Our overseas expansion plan will also play an integral part in our expansion plan. For the years ended 31 December 2012, 2013 and 2014, we sold our products overseas via direct as well as indirect export sales. For direct export sales, we sold our products overseas to our customers directly or through distributors acting as sales agent in overseas countries. For indirect export sales, we sold our products to our direct customers in the PRC who undertook road construction projects overseas. During the Track Record Period, the revenue generated from overseas sales of asphalt mixing plants (including direct and indirect export sales) accounted for approximately 21.9%, 22.8% and 14.7% of our revenue from the sale of asphalt mixing plants, respectively. The decrease in the percentage of our revenue from our sales to overseas markets in 2014 was mainly due to the decrease in number and average selling price of units of asphalt mixing plants sold via indirect and direct export sales to Russia. We intend to gradually increase our revenue from the sale of our products overseas and strengthen our overseas sales and distribution networks and alliances with certain overseas targets so as to significantly increase the geographic coverage of our distribution and service networks. This will enable us to balance out the potential market risks that may arise in the PRC.

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We also intend to increase our sales to overseas markets through distributors acting as sales agents in order to penetrate into new markets and increase our presence in overseas markets. We plan to establish service centres overseas to serve our overseas customers. Furthermore, we plan to strengthen our promotional efforts in overseas markets and intend to further our participation in promotional events and industry exhibitions in overseas markets so as to increase our brand recognition in markets outside the PRC.

By leveraging our past performance and our competitive strengths, we believe that we are well-positioned to maintain and increase our market share in the PRC and overseas markets despite the intense competition in some of these markets. We intend to apply approximately **[REDACTED]** of the proceeds of the **[REDACTED]** to finance the expansion of our sales and distribution network and our promotional activities.

Continue to broaden our product offerings and development of new businesses

We are committed to expanding our product offerings so as to provide "one-stop" services to our customers. We will continue to develop new asphalt mixing plants and value-added features in response to changes in industry trends, customer demands and business conditions. We will focus on developing products with environmental protection features, more user friendly elements and design and functions fitting the markets and customers' needs. By leveraging our core technological advantages and strengths in research and development, we intend to: (i) innovate and develop new asphalt mixing plants which are low in energy consumption and more environmental friendly; (ii) strengthen our leading position in the existing product segments, focus on developing products with cutting-edge technologies as well as research, develop and test production of key parts and components; (iii) continue to promote our equipment and systems modification services, in particular services relating to the improvement of the equipment's energy saving capability and the addition of the recycling function to Conventional Plants; and (iv) encourage our engineers and sales personnel to promote the sale of products and services such as sale of spare parts and components, provision of equipment modification services and equipment leasing to our existing customers.

Leveraging on our knowledge and experience on the components of asphalt mixing plants and asphalt mixtures, we also plan to develop new businesses, including manufacturing and distributing of components of asphalt mixing plants and producing asphalt mixtures for sale. In relation to the manufacture of components of asphalt mixing plants, in April 2014, we entered into a letter of intent with C.B.S. Italia SRL Combustion Burner Service Italia ("**CBS**"), a well-known Italian burner manufacturer, pursuant to which we had been granted the right to manufacture and assemble various burners of asphalt mixing plants in China by applying technology owned by CBS and the associated rights to market and distribute such burners in the PRC and global markets. In relation to the production of asphalt mixtures for sale, we plan to build asphalt mixing plants of our own to produce the asphalt mixtures. We intend to apply approximately **[REDACTED]** of the proceeds of the **[REDACTED]** to finance the development of these new businesses.

OUR BUSINESS MODEL

Our business primarily consists of the (i) design, manufacturing and sale of asphalt mixing plants; (ii) provision of equipment modification services and sale of spare parts and components for our asphalt mixing plants; and (iii) leasing of our asphalt mixing plants by way of operating lease. These business segments complement and support each other and enable us to provide "one-stop" services to our customers.

The following table sets forth a breakdown of our turnover by business during the Track Record Period and each item is also expressed as a percentage of our revenue for the periods indicated:

	Year ended 31 December					
	2012		2013		2014	
	RMB'000	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*
Sale of asphalt mixing plants	324,393	89.0	350,792	85.1	385,568	86.8
Sale of spare parts and components and provision of equipment modification services	27,404	7.6	44,238	10.7	34,012	7.6
Operating lease income of asphalt mixing plants	12,542	3.4	17,230	4.2	24,733	5.6
	364,339	100.0	412,260	100.0	444,313	100.0

OUR PRODUCTS AND SERVICES

Products

Our principal products are Conventional Plants and Recycling Plants, which are an integral part of road construction and maintenance projects. Our asphalt mixing plants are able to produce asphalt mixtures that meet the requirements and standards for the construction of all levels of roads and highways in the PRC, including expressways, being the top-tier highway in the PRC. We offer a broad range of products covering 2000 model series or below to 5000 model series asphalt mixing plants to cater to the needs of different customers and the scales of their projects.

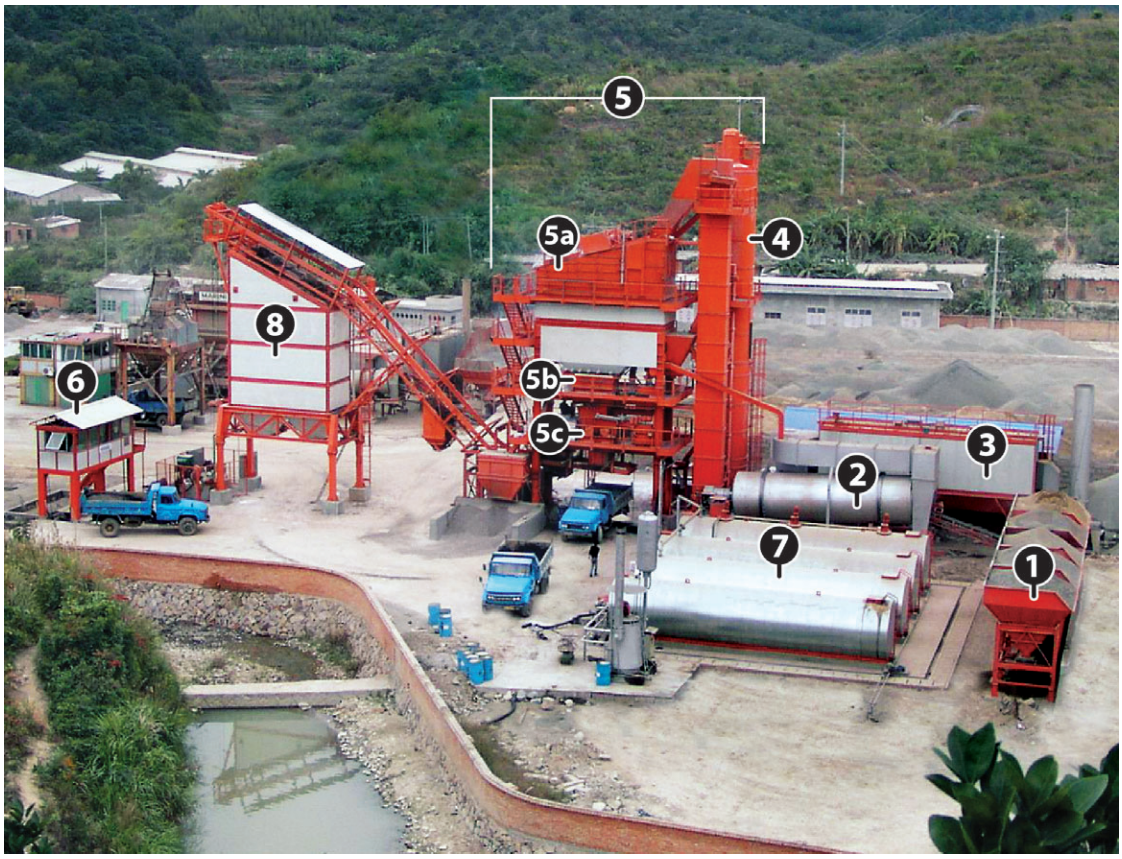
The following tables set forth the number of units sold, revenue and average selling price of our asphalt mixing plants by types of asphalt mixing plants during the Track Record Period:

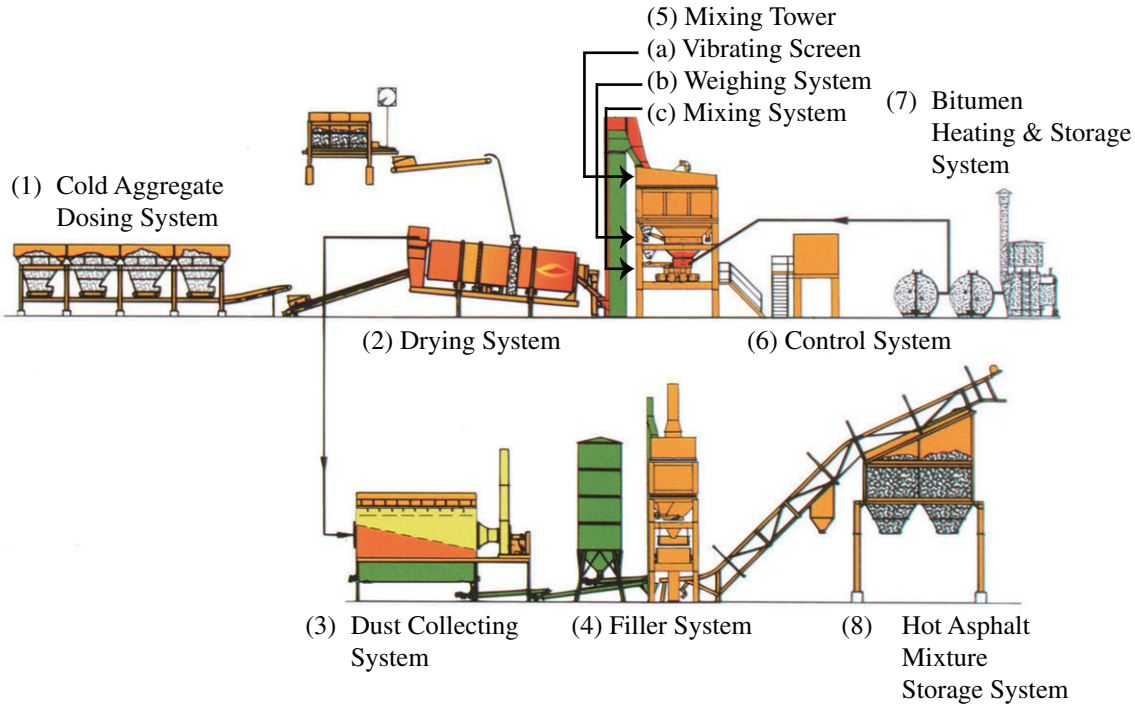
	Year ended 31 December								
	2012			2013			2014		
	Turnover	Number of Plants	Average Selling Price	Turnover	Number of Plants	Average Selling Price	Turnover	Number of Plants	Average Selling Price
	RMB'000		*RMB'000*	*RMB'000*		*RMB'000*	*RMB'000*		*RMB'000*
Conventional Plants									
5000 model series	56,948	6	9,491	23,221	3	7,740	68,421	8	8,553
4000 model series	109,651	15	7,310	117,610	16	7,351	77,297	11	7,027
3000 model series	66,297	10	6,630	71,011	11	6,456	36,008	6	6,001
2000 model series or below	38,600	10	3,860	48,385	11	4,399	16,693	5	3,339
	271,496	41	6,622	260,227	41	6,347	198,419	30	6,614
Recycling Plants									
4000 model series	15,800	2	7,900	62,465	8	7,808	105,258	14	7,518
3000 model series	23,898	3	7,966	24,126	3	8,042	64,497	11	5,863
2000 model series or below	13,199	3	4,400	3,974	1	3,974	17,394	4	4,349
	52,897	8	6,612	90,565	12	7,547	187,149	29	6,453
Total	324,393	49	6,620	350,792	53	6,619	385,568	59	6,535

For the year ended 31 December 2014, the average selling price of our 3000 model series and 4000 model series Conventional Plants decreased by approximately 7.0% and 4.4% in the period, respectively mainly due to the lower selling price of some of our Conventional Plants because certain non-key parts and components of the plants were provided by our customers. The average selling price of our 2000 model series or below Conventional Plants decreased by approximately 24.1% in the period, mainly due to the fact that (i) we offered a lower sales price of 2000 model series or below asphalt mixing plants to our customers to maintain our competitiveness in light of the competitive pricing of our competitors and (ii) a larger percentage of revenue from the sale of 2000 model series or below asphalt mixing plants in 2014 was generated from the sale of the lower end of the 2000 model series or below asphalt mixing plants with lower sales prices. The average selling price of 5000 model series Conventional Plants increased by approximately RMB0.8 million or 10.5%, mainly due to sale of two 5000 model series Conventional Plants at a relatively lower selling price in 2013 because (i) we were not required to procure the bitumen tanks in those sales and the bitumen tanks were provided by the customer; and (ii) we offered a discount to our sales price to this customer as we believed that this customer might be able to refer potential customers to us. The average selling price of 4000 model series Recycling Plants remained stable at approximately RMB7.5 million in 2014. The average selling price of 3000 model series Recycling Plants decreased by approximately 27.1% in 2014 mainly due to the sale of a number of 3000 model series Recycling Plants to India at a relatively lower sales price, a strategy that we have adopted to develop our market in India. The average selling price of 2000 model series or below Recycling Plants increased by approximately 9.4% in 2014, mainly due to the sale of the 2000 model series or below Recycling Plant at a relatively lower selling price to a finance leasing company in 2013 after netting off its service charge.

Conventional Hot-mix Asphalt Mixing Plant

The standard configuration of components of the Conventional Plants we currently produce are described below.





(1) Cold Aggregate Dosing System

This system is designed for aggregate dosing according to grade requirement as specified in production formula. Our aggregate bin adopted modular design and it comes with several combination units that can be combined or dismantled according to the quantity required. Our aggregate bin consists of fixed and detachable hoarding that provides sufficient capacity for aggregates as well as complies with dimension requirements for transportation. Each aggregate bin is equipped with a frequency inverter driven conveyor belt which is able to extract the aggregates at the appropriate ratio by adjusting the speed of the conveyor belt.

(2) Drying System

Aggregates are passed through our drying system so that moisture is removed and aggregates are heated to the required temperature. Our drying system uses self-developed burners that run on fuel such as diesel, heavy oil, gas, or coal fines. These burners are custom-built for our drum dryers with an aim to achieving optimum performance, improving heat-exchange efficiency and reducing caloric loss.

According to the CCID Report, this is one of the systems in 3000 model series or above asphalt mixing plants the manufacture of which requires advanced technical capabilities. Examples of the advanced technical know-how involved in the drying system include (i) the control of the flame in the burner to heat the aggregates to the required temperatures for further processing and remove moisture of the aggregates to a desirable level without damaging the aggregates, (ii) the improvement of heat exchange efficiency of the drum dryer; and (iii) the use of different types of fuel for the burner; and (iv) the improvement of burning efficiency of the burner. As examples of our technical capabilities, we have self-developed burners that run on different types of fuel, including diesel, heavy oil, gas or coal fines and we have obtained 10 patents in the PRC in relation to the drying system of asphalt mixing plants, including a patent in relation to shape and layout of shovelling paddles inside the drum dryer with an aim to improving the heat exchange efficiency and a patent in relation to the design of fuel nozzles for burners with an aim to improving fuel efficiency.

(3) Dust Collecting System

This system collects dust and smoke generated during the manufacturing process to ensure that the smoke emissions comply with the relevant environmental laws and regulations. We employ a two-stage dust collecting system using both gravity and dust bag filters with high and low temperature protective devices. Our asphalt mixing plants were able to maintain their dust emission level at approximately 70 mg/Nm^3 or less, which is significantly lower than that required under the PRC national standard of 100 mg/Nm^3. In addition, our asphalt mixing plants are able to maintain their fume blackness level at Ringelmann level 1 and the noise in control room (NCC) is generally lower than 70 dB. According to the CCID Report, these emission standards are amongst the highest in terms of environmental protection in the PRC.

(4) Filler System

This system stores and processes new or recycled filler. Our standard filler system contains filler silos that are stacked-up with an aim to providing better connection with the mixing tower and saving space. The capacity and number of filler silos are customizable.

(5) Mixing Tower

(a) Vibrating Screening System

The hot aggregates are taken to the top of the mixing tower by an elevator and fed into the vibration screen. The top of the mixing tower is equipped with a specially designed vibrating screen which is powered by vibrating motors or vibrating axes. According to the CCID Report, this is one of the systems in 3000 model series or above asphalt mixing plants the manufacture of which requires advanced technical capabilities. Examples of the advanced technical capabilities involved in the vibration screening system include ensuring the effectiveness of screening of the materials and the structure integrity of the mixing tower will not be compromised by the vibration from the vibrating screen at the top of the mixing tower of the asphalt mixing plants. We use a self-developed vibration amplitude detector to detect and test the vibration amplitude of our vibration screen and test whether and how it may affect the structural integrity of the mixing tower. We have obtained 3 patents in the PRC in relation to the vibrating screening system of asphalt mixing plants including a patent in relation to the design of a 6 section screen for use in asphalt mixing plants and a patent in relation to the vibration amplitude detector.

(b) Weighing system

After screening, hot aggregates are fed into the hot aggregate bins underneath and then into the weighing scale for metering. Weighed and metered hot aggregates, fillers and bitumen are then fed into the mixer for mixing. Our asphalt mixing plants require a weighing system with a high degree of weighing accuracy, thus enabling the ratio of bitumen and aggregates to strictly comply with the production formula. We have a 3-point electronic weighing system and weight control system of aggregates, fillers and bitumen. We employ double stroke cylinders for aggregate bin door (with two cylinders for each door) with an aim to improving weighing accuracy. We use a two-stage bitumen weighing method and if any deviation occurred in the process of weighing the aggregates and fillers can be automatically compensated for by computer, with an aim to ensuring the end-product meets the oil-stone ration (production formula). After the bitumen is weighed, the bitumen is pressurised with pump and sprayed into the mixer via a multiple-hole spray bar to increase uniformity and reduce mixing time. We use a screw conveyer controlled by a frequency converter for our filler weighing system with an aim to improving the reliability and consistency of the weight measurements.

(c) Mixing System

The mixer in our plants is a specially designed twin-shaft mixer where the mixing arm is cross arranged with switchable paddles marked with a grid pattern on its surface with an aim to improving mixing efficiency and durability of the mixer. According to the CCID Report, this is one of the components in 3000 model series or above asphalt mixing plants the manufacture of which requires advanced technical capabilities. As an example of our technical capabilities, we have designed our mixers so that there are more switchable paddles in the mixers to mix the asphalt mixtures, with an aim to increasing the mixing efficiency of the mixers. According to the CCID Report, the number of switchable paddles in our mixers is approximately 20.0% more than those manufactured by most other asphalt mixing plant manufacturers in the PRC. We have also obtained one patent in the PRC in relation to the mixers of asphalt mixing plants.

(6) Automated Control and Production Management System

The "DG Leap" automated control and production management system ("**DG Leap System**"), developed by us, controls the entire operation of our asphalt mixing plants. The control interface of DG Leap System includes computer and touch screen control

device. Our DG Leap system is equipped with real time production management capabilities which allows our customers to record, store and maintain their own database of product formula and production data which can be transmitted to various storage devices. This system also analyses the production data and provides the user with a variety of maintenance and alert messages. Furthermore, it is able to diagnose and analyse potential issues remotely and enables us to provide our customers with preventive servicing in order to minimize production downtime. Our DG Leap system supports remote monitoring functions of the asphalt mixing plant via wireless network, allowing users to remotely monitor and provide maintenance to the asphalt mixing plant, observe the real-time status of the plant, view and download production data as well as monitor the job site by way of surveillance cameras. Our technical capabilities in manufacturing automated control system of asphalt mixing plants is evidenced by our in-house development of the DG Leap system. We have obtained 12 software copyrights in the PRC in relation to DG Leap system.

(7) Bitumen Heating & Storage System

This system comprised of heatable bitumen storage tanks either by way of oil heating or electric heating. The bitumen storage tanks can be set up vertically or horizontally depending on the layout of the plant. The capacity and quantity of the bitumen storage tank can be custom made based on customers' requirements.

(8) Hot Asphalt Mixture Storage System

The end product asphalt mixtures produced by the asphalt mixing plant can be transferred or stored via: (i) discharging into the storage bin placed next to the mixing tower; (ii) discharging into the storage bin placed under the mixing tower; or (iii) discharging into the truck parked under the mixing tower. Specific layout and capacity and quantity can be custom made based on customers' requirements.

In order to satisfy requirements of different customers and projects, we provide several optional items as part of our asphalt mixing plants. For example, we are able to provide mobile steel bases for our plants which are quick to install and easy to transport. We also provide additional components including fiber or additive feeding devices, filler recovery and anti-dust disposal equipment, and back-up generator sets. Apart from standard-type equipment, we also developed a container-type product series specially designed for sea shipping and long-distance land transportation. Such products are comprised of components specifically selected and configured for container shipping. The design objective of such products is to reduce transportation cost as well as to ensure that installation and relocation of asphalt mixing plants can be achieved in a simpler and quicker way.

The following table sets forth the technical specifications of our Conventional Plants:

Model	2000 model series or below	3000 model series	4000 model series	5000 model series
Rated Production Capacity *(tonnes per hour)*	100-180	200-240	320	400
Precise Temperature Control for Aggregate *(degrees Celsius)*	≤ 5	≤ 5	≤ 5	≤ 5
Drum Dryer Diameter *(millimeters)*	1,600-2,200	2,200-2,500	2,800	3,000
Dust Emission *(mg/Nm^3)*	≤ 70	≤ 70	≤ 70	≤ 70
Section Screening[(1)]	4 to 5 sections	5 sections	6 sections	6 sections
Hot Aggregate Bin Volume *(m^3)*	21	40	75	80
Mixer Rated Capacity *(kg)*	1,300-2,000	2,500-3,000	4,000	5,000
Approximate Installed Power *(kW)*	333-494	557-639	840	983

Note:

1. This indicates the number of raw materials with different specifications that the plant is able to screen. For example, 6 sections means the plant is able to screen 6 types of raw materials at the same time.

During the Track Record Period, revenue generated from the sale of Conventional Plants accounted for approximately 83.7%, 74.2% and 51.5% of our revenue from the sale of asphalt mixing plants, respectively.

Hot-mix Asphalt Mixing Recycling Plant

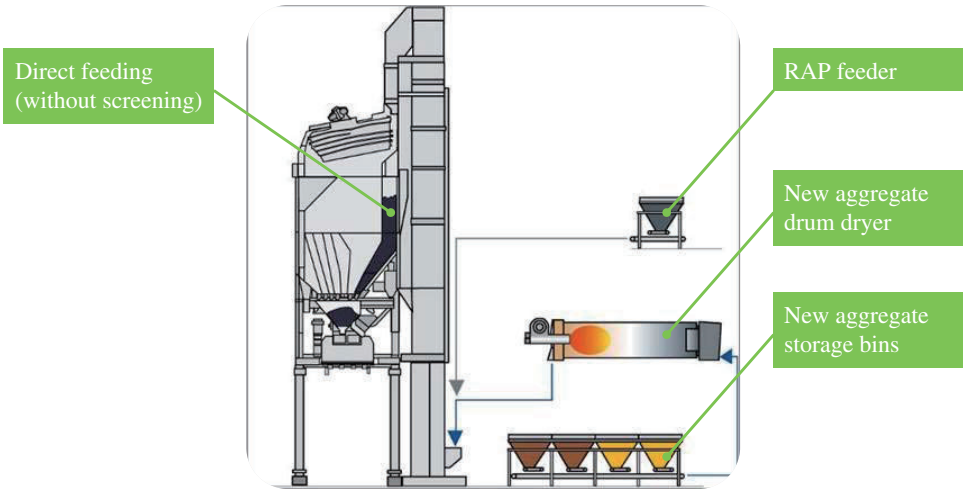
One of our business strategies is to focus on developing and manufacturing Recycling Plants that meet market demands and are in line with industry trends. Recycling Plants are able to make use of RAP which contain useful aggregates and asphalt generated when asphalt pavements are removed for maintenance or reconstruction. Our Recycling Plants are able to produce recycled asphalt mixtures which contains a mixtures of RAP, new bitumen, aggregates and fillers.

According to the CCID Report, the production of Recycling Plants in the PRC is generally achieved through converting Conventional Plants by installing components with recycling functions into Conventional Plants. We classify this type of Recycling Plants under "Integrated Recycling Plants". We manufacture four types of Integrated Recycling Plants, including the "Direct Feeding – Elevator" series, "Recycling Ring" series, "Direct Feeding – Mixer" series and "Double Drum" series, ranging from 2000 model series or below to 5000 model series and with production capacities ranging from 100 to 400 tonnes per hour. We manufacture Integrated Recycling Plants by installing components such as recycling rings and double drums developed by us into Conventional Plants. Depending on the type and function of the Integrated Recycling Plants, the types of components to be installed into the Conventional Plant may vary. In 2014, we developed and launched the first Monoblock Recycling Plant in the PRC. This model series instead of adding on components with recycling functions into Conventional Plants is designed and recycling functions as "standard configuration" taking into consideration the actual production needs of the Recycling Plants. The Monoblock Recycling Plants currently only comes with 3000 and 4000 model series, with a production capacity of 240 and 320 tonnes per hour, respectively. According to the CCID Report, we were the first manufacturer in the PRC who manufactured and launched Recycling Plants with 15% designed RAP added capacity and Double Drum Recycling Plants with 50% designed RAP added capacity. We were also the first to manufacture and launch the Recycling Ring Recycling Plants in the PRC in 2009 and we developed the first Monoblock Recycling Plant in the PRC in 2014, according to the CCID Report.

We developed the components with recycling functions for our Recycling Plants and we have obtained 9 patents in the PRC for the components and 2 patents applications are pending.

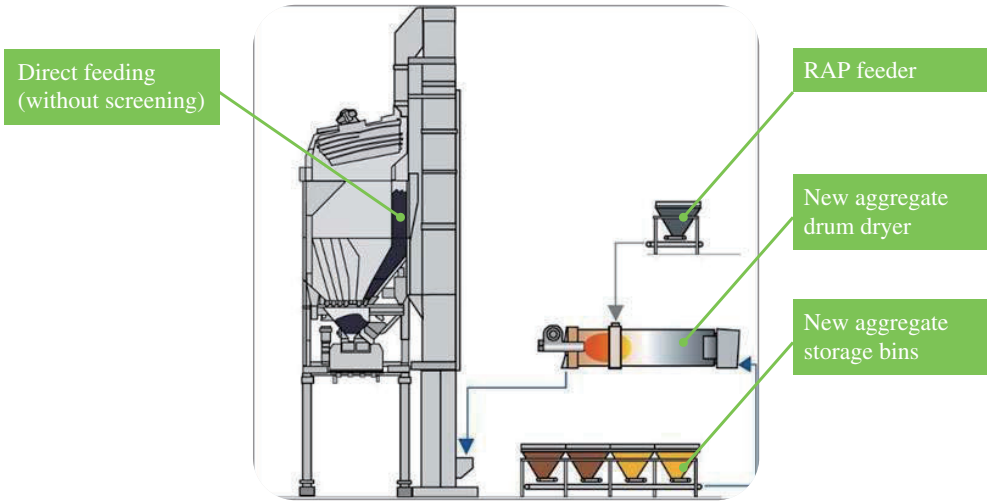
Integrated Recycling Plants Product Series

Type 1 – "Direct Feeding – Elevator" series (adding RAP into aggregate elevator)



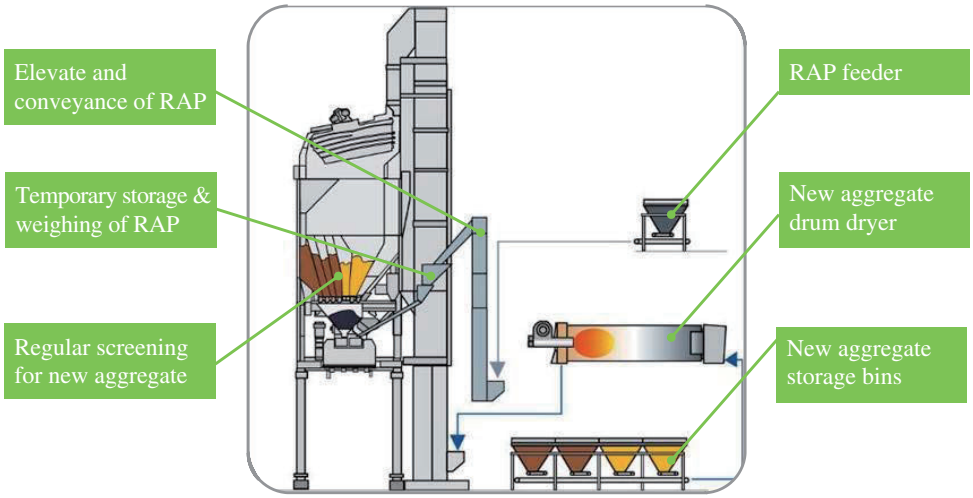
New aggregates will be heat up in the drum dryer to a temperature that is higher than the regular temperature required for production and fed into the aggregate elevator for subsequent processing. At the same time, RAP will be conveyed from the RAP feeder to the aggregate elevator via a conveyor belt. The new aggregates and the RAP are mixed together in the mixer and through such process, the RAP will attain the desired production temperature through heat transfer by absorbing heat from the hot new aggregates. The conveyor belts for new aggregates and RAP are equipped with weighing devices that are able to control the RAP ratio via volume measurement approach. The weighing accuracy derived from such approach is relatively low compared to other types of Integrated Recycling Plants. Screening is usually not suitable for this processing method as the new aggregates are mixed with the RAP (which contains bitumen) before it reaches the screening stage. As such, the quality of the recycled asphalt mixtures produced will be affected. This product series has a maximum designed RAP added capacity of 20%. Although its designed RAP added capacity is relatively low compared to other types of Integrated Recycling Plants, nonetheless, Recycling Plants which adopt such processing method are easier to operate and its production cost and sales price is also relatively lower compared to other types of Integrated Recycling Plants.

Type 2 – "Recycling Ring" series (adding RAP into drum dryer through recycling ring)



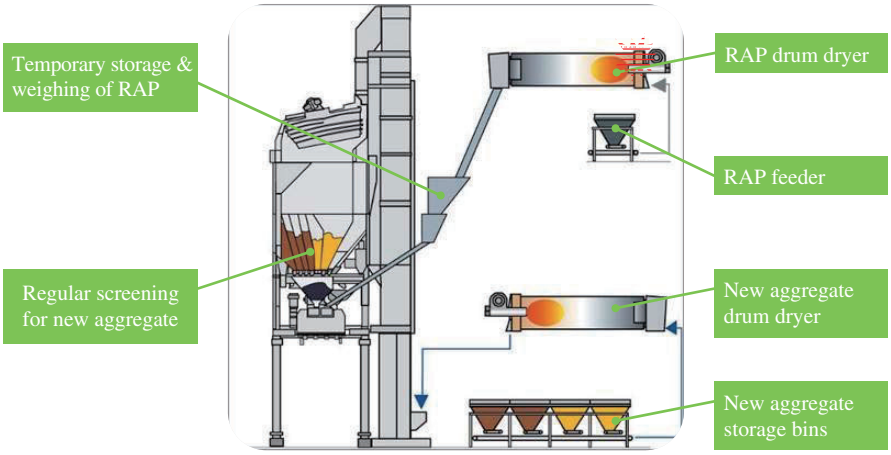
Compared to Type 1 "Direct Feeding – Elevator" series, this product series involved process where RAP will be fed into the aggregate drum dryer through a recycling ring device attached to the drum dryer. The heating capacity of the plants under this series is generally higher than those under Type 1 "Direct Feeding – Elevator" series as the RAP is heated up by the flame in the drum dryer, and consequently it is able to produce recycled asphalt mixtures which contain higher ratio of RAP (up to 35% designed RAP added capacity). In addition, new aggregates processed by the plants under this series are not required to be heated to a higher temperature than the usual temperature as those in Type 1 "Direct Feeding – Elevator" series.

Type 3 – "Direct Feeding – Mixer" series (adding RAP directly into mixer)



RAP will be conveyed from the RAP feeder to the aggregate elevator via a conveyor belt. The RAP will then be conveyed to a RAP surge bin, weighed and metered by a weighing and metering device dedicated for RAP, and conveyed to the mixer for mixing with the new aggregates. The separate processing routes for RAP and new aggregates in this series are designed to improve the accuracy of the grading ratio allocation of the recycled asphalt mixtures. Similar to the heating method adopted by Type 1 "Direct Feeding – Elevator" series, the RAP attains the desired production temperature through heat transfer by absorbing heat from the hot new aggregates during the mixing process, the designed RAP added capacity of this product series is relatively lower compared to other types of Integrated Recycling Plants, which is a maximum of 15% designed RAP added capacity. Nonetheless, this product series is able to produce better quality recycled asphalt mixtures as RAP can be weighed and metered separately and new aggregates can undergo regular screening prior to the mixing process.

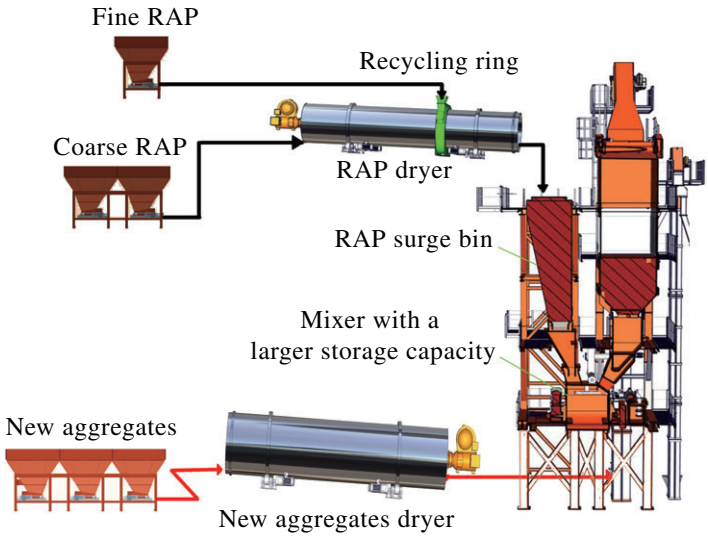
Type 4 – "Double Drum" series (adding RAP into a separate drum dryer)



Compared to Type 3 – "Direct Feeding – Mixer" series, this product series contains a second drum dryer dedicated for heating of RAP. This series retained the advantages of Type 3 – "Direct Feeding – Mixer" series and simultaneously improved its RAP heating capacity, increasing its designed RAP added capacity to up to 50%.

Each type of Integrated Recycling Plants product series has its own features, including RAP weighing and heating method, ability to control the grading ratio allocation of recycled asphalt mixtures (which will eventually affect the quality of the end product) as well as level of energy consumption, which caters for the needs of different production requirements. Currently, the Recycling Ring product series are our best selling product series. It offers a higher designed RAP added capacity of up to 35% compared to our "Direct Feeding – Elevator" series and "Direct Feeding – Mixer" series and a lower cost of investment for our customers compared to our Double Drum series. The recycling components of each type of product series above may be individually installed into a Conventional Plant or we can combine and install the recycling components of two or more type of product series into a Conventional Plant, thereby providing a wider application of the plants. For example, we may install the components of Recycling Ring series and Double Drum series into a Conventional Plant. Customers may elect to produce recycled asphalt mixtures by adopting the Recycling Ring processing method at a lower cost when the project required either a lower RAP content or the quality requirement for the asphalt mixture is lower. On the other hand, Double Drum processing method will incur higher cost but it is able to produce recycled asphalt mixtures with higher RAP content and it is suitable for projects which require recycled asphalt mixtures with higher RAP percentage or which have stringent quality requirements.

Monoblock Recycling Product Series



While the Integrated Recycling Plants product series are built by installing the recycling components into Conventional Plants, the design of Monoblock Recycling Plant adopted a different approach. Monoblock Recycling Plant sets recycling function as the "standard configuration". As such, we are able to improve the design of our Recycling Plants in various areas. For example, we have adopted the design of attaching recycling ring into RAP drum dryer that is able to separate and heat up materials individually, so as to provide an overall and balanced heating to the materials and at the same time reduce the chances of adhesion of RAP during the drying process and lower the risk of asphalt aging. This product series has a maximum designed RAP added capacity of up to 60%.

During the Track Record Period, the revenue generated from the sale of Recycling Plants has increased significantly and it accounted for approximately 16.3%, 25.8% and 48.5% of our revenue from the sale of asphalt mixing plants, respectively.

Services

As part of our commitment to provide customised solutions and "one-stop" services to our customers, we offer a wide range of customer services to our customers from pre-sale to post-sale up to the expiry of the warranty period, which is usually a period of 12 months commencing from the date of acceptance of goods or 15 months commencing from the date of delivery or shipment, whichever is earlier. In certain cases, usually in contracts with overseas customers or customers with overseas projects, we offer a longer warranty period of 18 to 24 months. We do not charge for services provided during the warranty period as we regard these after-sales services as an integral part of our services in connection with the sale of asphalt mixing plants. However, if the defect or damage is caused by the improper use of machinery by our customers, we will charge for the repair and maintenance service. We also provide after-sale services post warranty period with a charge. At the pre-sale stage, we will find out from our customers what their requirements are and provide consultation, offer advice and solutions on the types of asphalt mixing plants, jobsite design and construction techniques that are most suitable for them. After the asphalt mixing plants have been delivered to the site, we will typically provide guidance on the assembly and installation of our products as well as the carrying out commissioning and acceptance check for our products once installation has been completed. For further details, please refer to "Manufacturing Facilities and Process – Delivery, Installation and Assembly of Asphalt Mixing Plants" in this section.

Our service team is under the management of our sales department. Similar to the sales team, our service team is divided into four segments serving the southern, eastern, northern regions of the PRC and the international markets. Most of our service personnel have over five years of working experience in the relevant industry. Our service team provides guidance on installation, commissioning, training, technical consultancy and support, repair and maintenance services relating to asphalt mixing plants as well as the onsite equipment modification service. We encourage our service team to promote the sale of our spare parts and equipment modification services as they closely interact with our customers when providing after-sales services.

Our customers can also contact us through our after-sales service hotline. We strive to respond to our customers' queries or requests within 24 hours and our service personnel will endeavour to resolve the issues through phone calls. We will assign our service personnel located nearest to the relevant site to resolve the issues if it cannot be resolved over the phone or the remote diagnostics system.

In September 2013, we were honoured with the "National Advanced Enterprise in After-sales Service Award"* (全國售後服務先進單位) at the "Sixth National After-sales Service Evaluation Function"* (第六屆全國售後服務評價活動) jointly organised by the PRC General Chamber of Commerce* (中國商業聯合會), PRC Foundation of Consumer Protection* (中國保護消費者基金會) and PRC Evaluation Committee of After-sales Service* (全國商品售後服務評價委員會).

Sales of spare parts and components and provision of equipment modification services

We sell spare parts and components for our asphalt mixing plants to our customers. Our equipment modification services mainly include modifying our Conventional Plants, such as the installation of components with hot-mix asphalt mixing recycling functions, to modify control systems, burner systems and end-product hot mix storage bins. We also offer ancillary installation

and adjustment services if required. During the Track Record Period, revenue generated by our sale of spare parts and component and provision of equipment modification services amounted to approximately RMB27.4 million, RMB44.2 million and RMB34.0 million, respectively, accounting for approximately 7.6%, 10.7% and 7.6% of our total revenue, respectively.

Operating lease of our products

We offer operating lease of our products directly to our customers. For the years ended 31 December 2012, 2013 and 2014, revenue generated from operating lease of our products amounted to approximately RMB12.5 million, RMB17.2 million and RMB24.7 million, respectively, accounting for approximately 3.4%, 4.2% and 5.6% of our total revenue, respectively.

The following table sets forth the number of units of asphalt mixing plants we leased during the Track Record Period:

	Year ended 31 December		
	2012	**2013**	**2014**
Conventional Plants	*Number of plant*	*Number of plant*	*Number of plant*
5000 model series *Note 1*	1	1	2
4000 model series *Note 2*	2	3	3
Total	3	4	5

Notes:

1. With rated production capacity of 400 tonnes per hour.

2. With rated production capacity of 320 tonnes per hour.

As at 31 December 2014, the estimated remaining useful lives of the asphalt mixing plants that are available for leasing is approximately 1.7 to 6.4 years.

As at 31 December 2014, based on the lease contract that we have entered into with our customer for leasing in 2015 with provisions on rental per tonne and minimum production quantity commitment, the average rental per tonne of asphalt mixture produced was approximately RMB12.7 and the minimum production quantity committed by our customer was approximately 250,000 tonnes. As at 31 December 2014, the total future minimum lease payments under the operating lease contracts for leasing in 2015 were approximately RMB5.1 million.

When a customer indicates to us that it would like us to grant a lease of asphalt mixing plant to it and we consider that it is in our interest in granting the lease, we will ascertain if any of our existing asphalt mixing plants for leasing purpose is available. If none of the asphalt mixing plants is available, we will manufacture a new asphalt mixing plant for leasing purpose.

MANUFACTURING FACILITIES AND PROCESSES

Manufacturing facilities

We currently manufacture our products at our manufacturing facilities in Langfang, Hebei, PRC. Our manufacturing facilities have a total area of approximately 117,635.38 sq.m., of which 100,435.38 sq.m. is owned by us and 17,200 sq.m. is leased to us. The table below sets out the annual production capacity of our manufacturing facilities, actual production volume and utilisation rate during the Track Record Period:

Year	Annual[(1)] Production Capacity	Actual Production Volume	Utilisation Rate
2012	50	49	98.0%
2013	50	53	106.0%
2014	50	59	118.0%

Note:

1. The calculation of the annual production capacity is based on the following:

   (a) The number of total work hours to produce 2000 model series or below asphalt mixing plants to 5000 model series asphalt mixing plants ranges from approximately 2,760 hours to 4,350 hours. For the purpose of determining the total work hours to produce one asphalt mixing plant, we use the total work hours of approximately 3,950 hours to produce one 3000 model series asphalt mixing plants as the basis.

   (b) The total work hours of our manufacturing facilities in a year are 198,720 hours, based on the assumptions that there is one shift of eight hours work per day, 276 working days per year (including 10% overtime), 90% efficiency and 100 production staff.

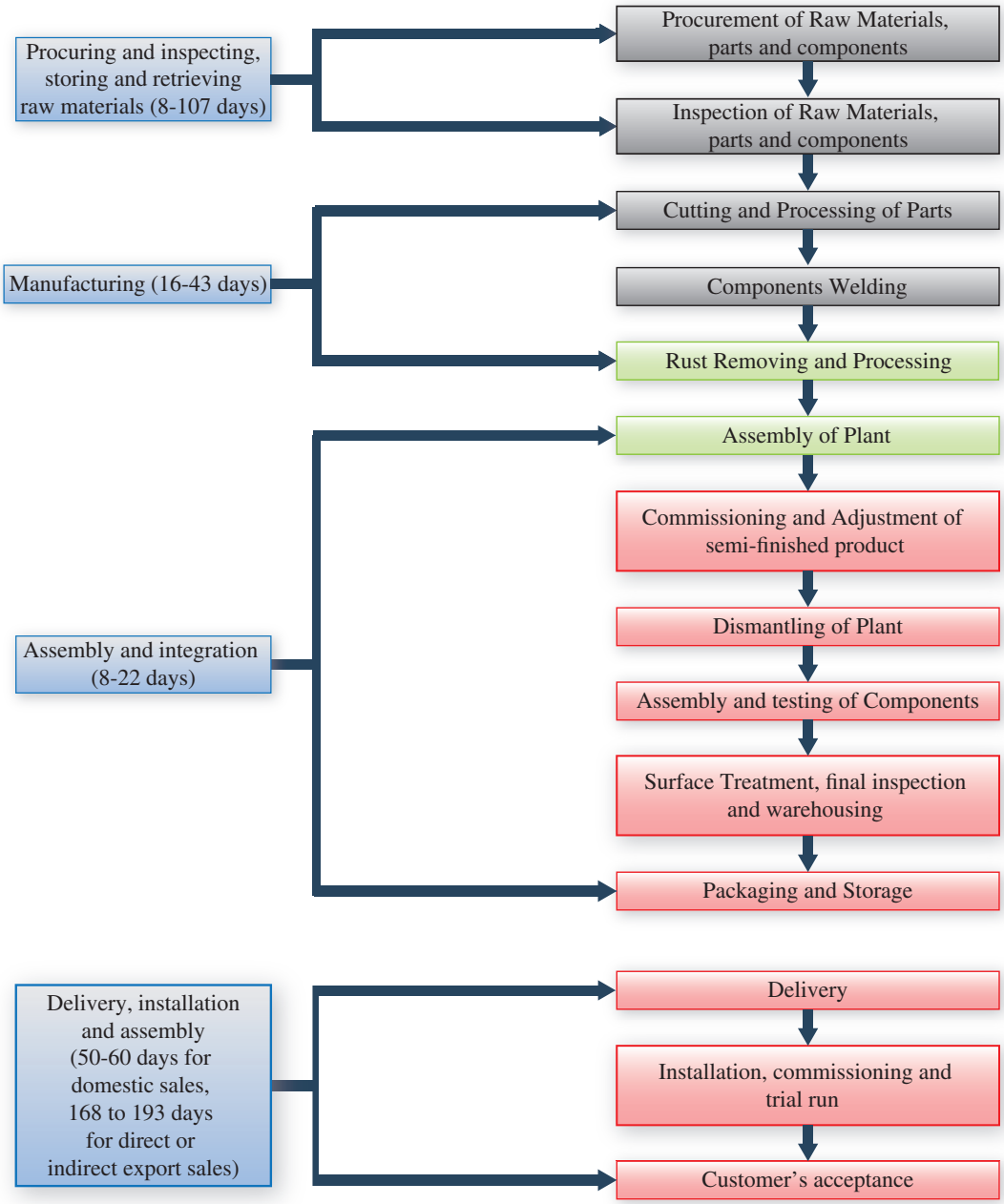
   (c) The annual production capacity is then calculated to be the total work hours of our manufacturing facilities in a year divided by the average total work hours to produce one asphalt mixing plant, which is equal to approximately 50 plants.

As can be seen from the table above, we faced capacity constraints during the Track Record Period. Our utilisation rates in 2013 and 2014 were slightly larger than 100% mainly due to the additional hours of overtime work and outsourcing of the production of certain non-key parts and components to our subcontractors in those periods as we sought to improve our production capacity in light of our production capacity constraints. We plan to expand the size of our manufacturing facilities in Langfang in order to meet the anticipated increasing demands for our products. For details of our expansion plan, please refer to the paragraph headed “Business Strategies – Expand production capacity to meet demand for our products” in this section.

Our major assets and equipment used in the production process include cranes and gantries. As at 31 December 2014, all our cranes and gantries were owned by us with age ranging from 7 months to 157 months old and are subject to regular inspections and daily maintenance if and when required.

Manufacturing Process

The diagram below illustrates the general manufacturing process of our principal products, asphalt mixing plants, and the approximate time required:



Generally, our manufacturing process can be broadly categorised into four steps:

(i) *Procuring and Inspecting, Storing and Retrieving Raw Materials*: We procure our principal raw materials, parts and components and items that we outsource, including steel, electrical components, semi-finished products and others based on our production plan and the sales orders received from our customers. Some of our raw materials, parts and components do not need to be processed and can be assembled into finished products upon completion of quality inspection. We carry out pre-storage inspection on the raw materials, parts and components that we have procured to check if they comply with the required quality and specifications before we send them to storage or subsequent processing. Raw materials, parts and components that fall short of the required standards will be rejected.

(ii) *Manufacturing*: The raw materials and parts are processed according to the necessary technical specifications to form the specified components. The manufacturing process involves cutting, welding, surface rust removal and spraying of anti-rust paint. Welding of components is the process whereby each component is welded together in accordance with the drawings of the components and the production process requirements. We have obtained one invention patent in the PRC in relation to the welding of special key components of dryer drum such as drying cylinder, ring carriage and spring board. We used to weld the components manually by metal arc welding. In 2013, we purchased an automatic welding robot that led to an improvement in the quality and speed of welding. We outsource the manufacturing of components that do not require sophisticated technology and which do not contain or require the use of our intellectual property to manufacture as this enables us to keep our production capacities lean. If there is an increase in demand for our products, we will be under less pressure to expand our production capacities if we will be able to outsource the manufacturing of standardised non-key parts and components. We manufacture all key components that utilise specialised technology developed by our research and development team.

(iii) *Assembly and integration:* These processes are carried out at our manufacturing facilities. The mixing tower of a plant comprised of semi-finished components will be trial-assembled in order to assess the structure safety of the plant that will be set up at the site. We then assemble and carry out inspection and commissioning on each semi-finished component and surface treatment on the components of the plants. We use a self-developed vibration amplitude detector to detect and test the vibration amplitude of our vibration screen. We have obtained one patent in the PRC in relation to the vibration amplitude detector. Our vibration amplitude detector is able to collect vibration amplitude data from the testing points on a consecutive basis and transmit such data to the control system of the detector. Finally, we run tests to determine if the finished products comply with the requisite standard. Upon passing the tests, finished products will be dismantled then packed and stored or delivered to our customers. We believe that the trial-assembly and testing of our plants before delivery can help improving the reliability of the plants when they are delivered to our customers and identifying the potential risks in the assembly of the plants at customers' site prior to delivery, thereby creating a smoother assembly and installation process at our customers' site.

(iv) *Delivery, Installation and Assembly of Asphalt Mixing Plants:* We deliver our products by road and/or by ship to the site where our products will be installed and assembled. The transportation costs are usually included in the contract price. In certain cases, our customers will collect the goods at our manufacturing site at their own costs. We usually provide the information required for the setting up of the plant to our customers after receiving the deposit and before delivery of the goods. Installation will commence within three days of delivery of the goods and we will provide up to 45 days of guidance on installation and commissioning of the plant (including acceptance check) free of charge. The installation and assembling of the asphalt mixing plant will be carried out by our customers or the end-users themselves under the guidance of our service personnel.

Upon completion of the installation and commissioning followed by a trial run of the plant with an aggregate production of 36 hours to 48 hours or 2,000 to 50,000 tonnes (depending on individual cases) of qualified asphalt mixtures, whichever is earlier, acceptance check will then be carried out. If either party disagrees with the results of the acceptance check, or refuses to sign the acceptance certificate, an authoritative inspection center recognised by both parties should be appointed to carry out the check. Under certain circumstances, if neither the acceptance certificate has been signed nor the inspection center has been appointed, acceptance will be deemed to have taken place when an aggregate of 5,000 to 10,000 tonnes (depending on individual cases) of qualified asphalt mixtures have been produced. In other cases, if the customer is unable to produce a certificate issued by the appointed inspection centre evidencing unsatisfactory test results for our products, acceptance is deemed to have taken place. During the Track Record Period, there had not been any material dispute between us and our customers in relation to the results of the acceptance check.

In addition, we offer onsite training and regular trainings in relation to the operation and maintenance of our products to our customers or end-users.

PROCUREMENT, RAW MATERIALS, PARTS AND COMPONENTS AND SUPPLIERS

Procurement

Our materials supply department oversees our supply chain management and performs multiple functions, including the procurement of raw materials, parts and components, management of outsourced production by subcontractors, management of inventory and storage facilities, and freight management including transportation of finished products to customers, and the transportation of semi-finished components from subcontractors to our manufacturing facilities or customers' site directly.

Our procurement division under our materials supply department works closely with our business and operations planning department to draw up a monthly procurement plan based on our production plan as well as monitor and adjust the plan on an ongoing and timely basis in order to meet our annual sales and production targets.

Raw Materials, Parts and Components

Our key raw materials, parts and components are steel sheets, steel structural components, electrical components, electrical wires, gear motors, burners and air blowers which we purchase from suppliers in the PRC and from the international markets, particularly from Italy. During the Track Record Period, we outsourced the manufacturing of some non-key parts and components to our subcontractors, for example, the cold feeder bin and bitumen storage tank. The key components, such as vibrating screen, drum dryer, mixer, aggregate elevator and filler elevator, are manufactured by us.

The total costs of our raw materials, parts and components with respect to the sale of asphalt mixing plant for the years ended 31 December 2012, 2013 and 2014 were RMB167.6 million, RMB178.1 million and RMB205.5 million, respectively, accounting for approximately 78.1%, 74.7%, and 79.0% of the total cost of sales, respectively.

Suppliers

We purchase raw materials and packaging materials as well as parts and components from an approved list of suppliers selected based on criteria including their product quality, pricing, punctuality, after-sale service, technical support and performance on environmental, health and safety matters. We also conduct an annual assessment on the performance of each of our suppliers to ensure that our suppliers are able to achieve the requisite performance targets. We source many of our raw materials, components and parts from international suppliers with well-known brand names. All raw materials, components and parts provided by our suppliers have to comply with the respective quality control requirements set out in the paragraph headed ''Quality Control'' in this section.

In order to ensure that we do not overly rely on one supplier for a particular type of raw material, part or component, we work with a number of suppliers for each type of raw materials, parts and components. This allows us to diversify the risk of potential disruption of our operations, maintain sourcing stability and secure competitive prices for our raw materials, parts and components. During the Track Record Period, we obtained our supply of raw materials, parts and components mainly from domestic suppliers.

We usually do not enter into framework agreements with our suppliers but we may enter into framework agreement with our suppliers in certain circumstances. For example, we have entered into a legally binding framework agreement in July 2014 with one supplier at its request in order to obtain preferential prices for the raw materials, parts and components of asphalt mixing plants including gas cylinders and solenoid valves. The framework agreement is for a period of one year and we intend to renew the framework agreement upon expiry. We are entitled to the agreed preferential prices if we meet an annual purchase target of RMB2,000,000. Payment is to be settled within 30 days upon issuance of invoice. We are given a 30-day credit period and a credit limit of RMB400,000 under the framework agreement. The supply may be suspended if the payment requirement has not been met. If either party breached the agreement and no action or remedy has been taken within 30 days by the defaulting party after notification has been issued, the agreement will automatically be terminated. For the majority of our suppliers, we do not enter into any framework agreement but we enter into a sale and purchase contract or a standard purchase order on an order-by-order basis. The price and quantity for each procurement are specified in each sale

and purchase contract or purchase order. In addition, we provide to some of our suppliers a monthly to quarterly forecast of the raw materials, parts and components required by us so that they can reserve the raw materials, parts and components we need in advance for us. For more details of our inventory control, please refer to the paragraph headed "Inventory Policy" under this section.

Prices of raw materials, parts and components are usually determined upon negotiation with our suppliers taking into consideration, the market conditions, past performance of the suppliers and the sales price of similar product. Prices remained generally stable for our principal raw materials parts and components during the Track Record Period. The price of steel that we purchased directly from our suppliers may vary from time to time depending on the market price of steel. Please refer to the section headed "Financial Information – Description of selected items of our consolidated statements of profit or loss and other comprehensive income – Cost of sales" for a sensitivity analysis of the impact on fluctuation of our cost of raw materials, parts and components on profit before income tax during the Track Record Period. We do not enter into hedging arrangements with respect to the price of raw materials, parts and components. If the price of raw materials, parts and components increases, we seek to find alternative raw materials, parts and components with lower costs and/or adjust the selling price of our products.

Our suppliers usually do not give us a credit period. Payments are generally prepaid or settled upon delivery of goods or on monthly basis by way of bank transfer or 90 to 180 day bank acceptance notes in RMB for PRC suppliers and by telegraphic transfer in foreign currencies such as Euro and Australian dollars for overseas suppliers. We did not experience material price fluctuations or supply delay or shortages of raw materials, parts and components throughout the Track Record Period. Typically, our suppliers offer one-year warranty from the date of delivery of the raw materials, parts and components.

Our five largest suppliers for each of the years ended 31 December 2012, 2013 and 2014 were based in Italy and the PRC specialising in the marketing and distribution of construction machinery and building materials; designing and manufacturing gear motors, drive system, planetary gearbox, inverters and photovoltaic solutions; distribution of electrical solutions and equipment manufacturing; provision of electric wires and cables; supplying of motion and fluid control products; designing and manufacturing team boiler, hot water boilers and thermal fluid heater; provision of steel products and manufacturing supplying equipment for bulk material handling, dust filtration, waste water and vibration technology. We maintain good and stable relationships with these suppliers and have generally cooperated with them for 3 to 10 years.

For the years ended 31 December 2012, 2013 and 2014, the aggregate purchases from our five largest suppliers amounted to approximately RMB36.1 million, RMB39.4 million and RMB43.2 million, respectively, representing approximately 18.1%, 16.6% and 17.2% of our total purchases for the same periods, respectively, and the purchases from our largest supplier amounted to approximately RMB10.2 million, RMB11.4 million and RMB10.0 million, respectively, representing approximately 5.1%, 4.8% and 4.0% of our total purchases for the same periods, respectively. To the best of the knowledge of our Directors, none of our Directors or their close associates, or any Controlling Shareholder owns more than 5% of the issued share capital or has any controlling interest in any of our five largest suppliers during the years ended 31 December 2012, 2013 and 2014.

Subcontracting Arrangements

During the Track Record Period, we outsourced the manufacturing of standardised non-key parts and components to our subcontractors in the PRC. We select our subcontractors based on their track record, quality of products, cost efficiency, financial health and environmental friendliness.

We outsource the manufacturing of standardised non-key components to several subcontractors with similar capabilities so that we do not become overly reliant on any one subcontractor which may decrease our bargaining power and increase costs. We outsource the manufacturing of components that do not require sophisticated technology and which do not contain or require the use of our intellectual property to manufacture as this enables us to keep our production capacities lean. This allows us to adapt to changing market demands more easily. If there is an increase in demand for our products, we will be under less pressure to expand our production capacities if we are able to outsource the manufacturing of standardised non-key parts and components.

We typically enter into one-year legally-binding framework processing agreements with our subcontractors. The subcontracting fees are determined based on the specifications of the products, the costs of raw materials, the production time and labour costs. No minimum purchase is required. Our subcontractors usually do not give us a credit period. Payments are generally prepaid or settled upon delivery of goods or on monthly basis by way of bank transfer or 90 to 180 days bank acceptance notes in RMB. Under the framework processing agreement, our subcontractors are prohibited from re-subcontracting the work to third parties.

We also enter into a quality assurance agreement with our subcontractors who supply structural components to us, pursuant to which our subcontractors agree to provide one-year product warranty from the date of delivery and are required to provide quality assurance certificates certifying the quality of the materials supplied. For details on our quality control on the subcontracting arrangement, please refer to "Quality Control" in this section.

Our subcontractors generally source their own raw materials and parts, but subject to our inspection and approval. However, where we are unable to or it will be difficult for us to access and inspect the quality of the end-product or the raw materials and parts can only be procured through our oversea suppliers, we will provide the relevant raw materials and parts to our subcontractors. Our subcontractors produce either semi-finished products or finished products according to our specifications.

During the Track Record Period, one of our five largest customers in 2012, an individual customer who is principally engaged in the equipment leasing business (the "**Individual Customer**"), was also our subcontractor as he held approximately 25% equity interests in a company which supplied certain components and parts to us such as cold feeder bins, bitumen storage tanks and filler silos (the "**Subcontractor I**"). We have maintained a good business relationship with Subcontractor I for three years. Subcontractor I was our largest subcontractor for the years ended 31 December 2012, 2013 and 2014, however, we do not place heavy reliance on Subcontractor I and we have a list of alternative subcontractors who are able to offer similar products that we could easily switch to. The aggregate purchases from Subcontractor I accounted for approximately 10.1%, 5.6% and 6.2% of our total purchases for the years ended 31 December 2012, 2013 and 2014, respectively. For further details of the Individual Customer and the arrangement, please refer to the paragraphs headed "Customers, Distribution Network and Sales and Marketing" in this section.

We have not experienced any interruption in the supply of components from our subcontractors or any early termination of our processing agreements. During the Track Record Period, we had not encountered any significant quality issues or any material adverse consequence from any unsatisfactory products produced by our subcontractors.

Our five largest subcontractors for each of the year ended 31 December 2012, 2013 and 2014 are companies in the PRC specialising in designs, manufactures and installs machineries and equipment; painting of heat-resistant and anti-corrosive coatings and several machinery components manufacturers. We have developed long-standing relationships with most of our subcontractors and have worked with the majority of them for approximately 4 to 6 years.

For the years ended 31 December 2012, 2013 and 2014, the aggregate purchases from our subcontractors amounted to approximately RMB79.5 million, RMB93.3 million and RMB108.6 million, respectively, representing approximately 40.0%, 39.3% and 43.3% of our total purchases for the same period, respectively. For the years ended 31 December 2012, 2013 and 2014, the aggregate purchases from our five largest subcontractors amounted to approximately RMB44.4 million, RMB41.7 million and RMB52.0 million, respectively, representing approximately 22.3%, 17.5% and 20.7% of our total purchases for the same periods, respectively, and the purchases from our largest subcontractor amounted to approximately RMB20.1 million, RMB13.3 million and RMB15.6 million, respectively, representing approximately 10.1%, 5.6% and 6.2% of our total purchases for the same periods, respectively. To the best of the knowledge of our Directors, none of our Directors or their close associates, or any Controlling Shareholder owns more than 5% of the issued share capital or has any controlling interest in any of our subcontractors during the years ended 31 December 2012, 2013 and 2014.

Inventory Policy

Our inventory policy involves balancing between the benefits of having a ready supply of inventory through bulk purchasing to lower costs and the risk of deteriorating the value of our inventory due to overstocking. We consider the following factors in formulating our production and procurement plans: (i) sales and production targets; (ii) market demands for our different models or specifications of the products; (iii) estimated future sales volume; and (iv) prevailing market prices with respect to the different kinds of raw materials, parts and components we require to produce our products.

We monitor our inventory levels based on the demands set by our production plans. Our average inventory days were 155, 152 and 153 days for the years ended 31 December 2012, 2013 and 2014, respectively.

We actively monitor our inventory stock on the level of raw materials, parts and components that we keep in stock. We generally place purchase orders for imported raw materials, parts and components approximately three months in advance of our production plans. We maintain an inventory of these raw materials, parts and components for satisfying our production needs of about 60 to 90 days. We place purchase orders for raw materials, parts and components supplied or produced by PRC suppliers or subcontractors based on our latest production plans and maintain an inventory supply for our production needs of approximately 30 to 45 days. We also keep stock of

certain raw materials, parts and components and components that we use on a recurring basis. Further, in order to manage the risk that our inventory will devalue over time if we overstock, we may make arrangements with our subcontractors to store those components that we use on a recurring basis at the subcontractors' warehouses. This enables us to place immediate purchase orders and use the warehoused raw materials and components to meet our production needs.

Logistics

Our procurement department invites logistics companies to bid for the delivery service of the finished products from our factory or from our subcontractor's factories (if required) to our customers' job sites, selects the most competitive transport service and monitors the quality of service from such transport companies. Where our suppliers or subcontractors provide raw materials or semi-finished products, our procurement department arranges for the transport of such raw materials or semi-finished products to our factory, and informs our quality control department to carry out quality inspection. Raw materials, parts and components and other semi-finished products that pass the quality inspection will be allowed to be stored in the warehouse and record as inventory.

CUSTOMERS, DISTRIBUTION NETWORK AND SALES AND MARKETING

Sales

As at 31 December 2014, our sales and marketing team, led by our executive Directors Mr. Liu Tom Jing-zhi and Mr. Lao Kam Chi, consisted of 87 staff, 24 were sales personnel responsible for sales in the PRC, 6 were sales personnel responsible for overseas sales, 30 were service personnel and the remaining were support personnel. Our sales teams are spread out in the major cities in the PRC including Shanghai, Beijing and Guangzhou as well as our headquarters in Langfang, Hebei province, in order to serve customers at different geographical locations.

Our sales personnel regularly monitors the road construction and maintenance activities in the regions for which they are responsible. Once a road construction or maintenance project is identified, we will approach the relevant contractor of the project for the sale of our asphalt mixing plants. Our sales personnel also seeks to identify road construction contractors in the regions for which they are responsible from time to time to explore business opportunities. They conduct promotional activities with road construction contractors from time to time, including visiting the road construction contractors, obtaining information from them on their needs for asphalt mixing plants and inviting road construction contractors to visit our manufacturing facilities. We also source our business through referrals by existing customers and new customer development through marketing activities. We participate in exhibitions, organise technical and products seminars and training and take part in events organised by industry associations to meet our potential customers.

During the Track Record Period, we sold our asphalt mixing plants primarily to our domestic customers in the PRC. In addition, we also sold our asphalt mixing plants to customers or end-users located in, amongst others, Russia, India, Australia, Middle East and Africa through direct sales to or through our overseas distributors; or indirectly through sales to customers in the PRC which had undertaken road construction projects in overseas countries. As at the Latest Practicable Date, we had 9 distributors across different provinces in the PRC and 5 distributors in total covering Russia, Poland and certain countries in Africa. The table below sets forth our revenue and volume from the sale of our asphalt mixing plants by domestic and international sales during the Track Record Period:

	Year ended 31 December					
	2012		2013		2014	
	RMB'000	*Unit*	*RMB'000*	*Unit*	*RMB'000*	*Unit*
China			China		China	
Domestic	253,343	36	*Domestic*	270,623	39	*Domestic*	328,846	48
Indirect export [1]			*Indirect export* [1]			*Indirect export* [1]		
Ethiopia	7,740	2	Mauritania	3,044	1	Ethiopia	3,043	1
Angola	9,316	2	Angola	9,421	2	Russia	11,021	2
Brunei	3,914	1	Congo	11,042	2	Congo	5,265	1
			Senegal	5,750	1			
	20,970	5		29,257	6		19,329	4
	274,313	41		299,880	45		348,175	52
Outside China			Outside China			Outside China		
Direct export			*Direct export*			*Direct export*		
Russia	35,522	4	Russia	41,444	6	Russia	13,412	2
Mongolia	5,162	1	Australia	6,844	1	India	15,777	3
India	9,396	3	India	2,624	1	Libya	3,121	1
						Saudi Arabia	5,083	1
	50,080	8		50,912	8		37,393	7
Total	324,393	49	Total	350,792	53	Total	385,568	59

Note:

1. Indirect export refers to the selling of our products to customers in the PRC who had undertaken road construction projects in overseas countries and hence the need for exporting the plants to the relevant countries.

Customers

We sell our products in the PRC, as well as in the overseas markets. Our customers include road construction companies, road construction machinery distributors and finance leasing companies. The table below sets forth our revenue from the sale of asphalt mixing plant by type of customers during the Track Record Period:

	Year ended 31 December					
	2012		2013		2014	
	RMB ('000)	*%*	*RMB ('000)*	*%*	*RMB ('000)*	*%*
Direct customers[1]	295,930	91.2	298,055	85.0	320,441	83.1
Finance leasing companies	12,263	3.8	47,866	13.6	32,340	8.4
	308,193	95.0	345,921	98.6	352,781	91.5
Distributors[2]	16,200	5.0	4,871	1.4	32,787	8.5
Total	324,393	100.0	350,792	100.0	385,568	100%

(1) This includes revenue generated from direct sales to customers and sales to customers through distributors acting as sales agents.

(2) This represents revenue generated from direct sales to distributors.

During the Track Record Period, we had delivered asphalt mixing plants to customers or end-users in locations in the PRC, overseas emerging markets and developed countries as shown in the following maps:

1. Anhui
   - Anqing
   - Bengbu
   - Huangshan
   - Mingguang
   - Tongling
2. Chongqing
   - Chongqing
3. Fujian
   - Fuzhou
   - Longyan
   - Putian
4. Gansu
   - Gannanzhou
   - Linxia
   - Longnan
5. Guangdong
   - Dongguan
   - Guangzhou
   - Jiangmen
   - Jieyang
   - Meizhou
6. Guangxi
   - Beihai
   - Qinzhou
7. Guizhou
   - Bijie
   - Guiyang
   - Zunyi
8. Hainan
   - Qiongzhong
9. Hebei
   - Handan
   - Langfang
   - Xingtai
   - Zhangjiakou
10. Heilongjiang
    - Beian
11. Henan
    - Anyang
    - Nanyang
    - Puyang
    - Zhengzhou
    - Zhumadian
12. Hubei
    - Danjiangkou
    - Huanggang
    - Macheng
    - Shiyan
    - Songzi
    - Xianyang
13. Hunan
    - Changde
    - Chenzhou
    - Hengyang
    - Huaihua
    - Loudi
    - Xiangtan
    - Yueyang
    - Zhuzhou
14. Inner Mongolia
    - Bayanzhouer
    - Hohhot
    - Wulanchabuer
15. Jiangsu
    - Suqian
    - Zhenjiang
16. Jiangxi
    - Fuzhou
    - Ganzhou
    - Gaoan
    - Jizhou
    - Pingxiang
    - Shangrao
    - Yichun
17. Jilin
    - Baishan
18. Liaoning
    - Benxi
    - Fuqin
    - Kaiyuan
    - Tieling
19. Ningxia
    - Guyuan
    - Wuzhong
    - Yinchuan
20. Shandong
    - Jinan
    - Jining
    - Liaocheng
    - Linyi
    - Yantai
    - Zibo
21. Shaanxi
    - Xian
22. Sichuan
    - Yaan
    - Ziyang
23. Tianjin
    - Tianjin
24. Tibet
    - Linzhi
25. Xinjiang
    - Beitun
    - Hami
    - Kelamayi
    - Yili
26. Yunnan
    - Qujing
    - Ruili
27. Zhejiang
    - Dongyang
    - Haining
    - Jinhua
    - Lanxi
    - Ningbo
    - Shaoxing
    - Taizhou
    - Wenzhou

An Individual Customer ("**Individual Customer**"), an Independent Third Party, who is also one of our five largest customers in 2012, entered into contracts with us in his personal capacity and he procured our products mainly for road construction projects in locations such as Tibet and Guiyang in the PRC where he acted as a construction subcontractor and leasing to third parties whom the Individual Customer confirmed to be Independent Third Parties. The Individual Customer also holds approximately 25% equity interest in one of our major subcontractors which supplies certain components and parts to us such as cold feeder bins, bitumen storage tanks and filler silos ("**Subcontractor I**"). Subcontractor I was also our largest subcontractor in 2012, 2013 and 2014. Subcontractor I was selected based on commercial consideration. We have expanded our sales network in the southern region of the PRC in recent years and in order to achieve cost-efficiency, it has always been our strategy to select suppliers or subcontractors within the vicinity of our manufacturing facilities or customers' operation sites. For components that can be delivered to the site for installation or assembly without going through the manufacturing process at our manufacturing facilities, we will request the relevant supplier or subcontractor to deliver the components to the site directly in order to cut down the unnecessary transportation cost. Subcontractor I is strategically located in the Jiangxi province and is able to deliver the requisite components to our customers located within the southern region at a lower cost due to his geographical advantage. In addition, we have maintained a good business relationship with the

Individual Customer for four years and our Directors are of the view that it is mutually beneficial to engage Subcontractor I. The Individual Customer and Subcontractor I are Independent Third Parties. Revenue generated by this customer accounted for approximately 3.6%, 1.8% and 1.2% of our total revenue during the Track Record Period. The gross profit attributable to this customer accounted for approximately 4.0%, 1.9% and 1.1% of our gross profit during the Track Record Period.

Our five largest customers for each of the year ended 31 December 2012, 2013 and 2014 were based in the PRC, Russia and India. The table below set forth the details of our top five customers during the Track Record Period:

For the year ended 31 December 2012

Rank	Customer	Principal activities	Location	Approximate years of business relationship with customer
1.	Customer A	a company engaged in leasing of construction machinery and equipment and production of asphalt-concrete mixtures in Russia	Russia	7
2.	Customer B	a road and bridge construction company and raw material and equipment exporter based in Shandong province	PRC	13
3.	Customer C	a construction machinery and maintenance equipment dealer based in Zhejiang province, which is also engaged in equipment maintenance and leasing	PRC	6
4.	Individual Customer	an individual who is engaged in equipment leasing and road construction business in the PRC	PRC	4

Rank	Customer	Principal activities	Location	Approximate years of business relationship with customer
5.	Customer D	a company which provides, amongst others, finance leasing services and operating leasing services of machineries, communication equipment, electrical appliances and transportation vehicles in the PRC	PRC	11

For the year ended 31 December 2013

Rank	Customer	Principal activities	Location	Approximate years of business relationship with customer
1.	Customer D	a company which provides, amongst others, finance leasing services and operating leasing services of machineries, communication equipment, electrical appliances and transportation vehicles in the PRC	PRC	11
2.	Customer A	a company engaged in leasing of construction machinery and equipment and production of asphalt-concrete mixtures in Russia	Russia	7
3.	Customer E	a solvent oil manufacturer, hardware and building materials supplier and equipment leasing service provider based in Xinjiang Uygur Autonomous Region	PRC	11

Rank	Customer	Principal activities	Location	Approximate years of business relationship with customer
4.	Customer F	a company based in Hubei province which provides equipment leasing services, sale of construction machinery spare parts and urban road construction services	PRC	14
5.	Customer G	a road construction and equipment leasing and building engineering company based in Henan province	PRC	2

For the year ended 31 December 2014

Rank	Customer	Principal activities	Location	Approximate years of business relationship with customer
1.	Customer C	a construction machinery and maintenance equipment dealer based in Zhejiang province, which is also engaged in equipment maintenance and leasing	PRC	6
2.	Customer D	a company which provides, amongst others, finance leasing services and operating leasing services of machineries, communication equipment, electrical appliances and transportation vehicles in the PRC	PRC	11

Rank	Customer	Principal activities	Location	Approximate years of business relationship with customer
3.	Customer H	a road and bridge construction company based in Ningxia Hui Autonomous Region	PRC	1
4.	Customer I	a company engaged in development, maintenance and operations of all types of infrastructural projects or facilities including roads, transportation and other infrastructure projects in India	India	1
5.	Customer J	an equipment, machinery, building materials and precious metal dealer based in Yunnan province	PRC	6

Revenue generated from our five largest customers amounted to approximately RMB76.3 million, RMB87.5 million and RMB82.5 million, representing approximately 21.0%, 21.2% and 18.6% of our total revenue during the Track Record Period. Revenue generated from our largest customer amounted to approximately RMB17.6 million, RMB33.5 million and RMB28.0 million, representing approximately 4.8%, 8.1% and 6.3% of our total revenue during the Track Record Period. None of our Directors, their close associates, or any Shareholders, who, to the knowledge of our Directors, owns more than 5% of our issued share capital (without taking into account any exercise of the **[REDACTED]**), had any interest in our five largest customers during the Track Record Period.

Direct Customers

Our direct customers are primarily engaged in road construction and maintenance work. These customers may contact us once they have successfully bid for a road construction or maintenance project or before they submit their bid for a road construction or maintenance project. Due to the nature of our business and the product life cycle of our products, which is usually 8 to 10 years or more, we do not enter into long term agreement with our direct customers. We typically enter into a legally binding sale and purchase contract with our direct customers on an order-by-order basis. We do not have standard payment terms and we usually negotiate the terms with our customers on a case by case basis. We may or may not request for deposits from our customers and we usually require our customers to pay us up to 50% of the contract sum prior to

the delivery of our products to our customers. The remaining sum is usually being settled by way of instalments up to a period of 18 months after the date of delivery of our products. Some of our customers will retain 5% to 10% of the contract sum as retention money, which will be paid to us after deducting warranty claims, if any, upon the expiry of the warranty period. The warranty period is 12 months commencing from the date of acceptance of the goods or 15 months commencing from the date of delivery or shipment, whichever is earlier. As part of our strategies to promote our sales to overseas customers or customers with overseas projects, we offer a longer warranty period of 18 to 24 months to our overseas customers or customers with overseas projects.

Our domestic customers will settle payment in RMB and our overseas customers will settle payment in foreign currencies such as Euro and USD. The penalty for late payment for domestic customers is within the range of 0.5% to 1% of the contract value every two weeks in the first month and we have the right to refuse delivery, terminate usage of or reclaim our products in case of continuing breach. In certain cases, we are entitled to terminate the contract if no deposit is received within one month of the signing of the contract or after six months of non-payment. As for overseas customers, we are entitled to terminate the contract if a customer fails to pay the deposit within the agreed time, in which case, the contract will become void. We are entitled to forfeit the deposit if our customer fails to pay the remaining sum. The penalty for late delivery of goods is typically 0.5% of the value of the goods payable every two weeks and the total penalty shall not exceed 5% of the value of the goods. During the Track Record Period, we had not terminated any sales contract for our customers' failure to make payment to us and no penalty had been imposed on us for late delivery of goods.

Finance Leasing Companies

As part of our valued-added solutions and in order to cater for the needs of potential end-users of asphalt mixing plants who are looking for more flexible payment options, we refer potential end-users to certain finance leasing companies once these potential end-users have indicated their interest to purchase the plants through finance leasing. During the Track Record Period, we entered into contracts with three finance leasing companies and these finance leasing companies purchased our products and leased to end users by way of finance lease. Once the potential end-user has gone through and passed the background and credit check, we will enter into a tripartite sales contract with the finance leasing company and the end-user. The terms of these contracts vary from customer to customer and are determined mainly based on negotiation with the relevant finance leasing company and the end-user. The finance leasing company will also enter into a separate equipment leasing contract with the end-user.

Pursuant to the tripartite sales contract, the end-users are required to pay a deposit in the range of 20% to 40% upon signing or within three to 40 days of signing of the tripartite sales contract and the finance leasing company is required to pay the remaining sum by way of bank transfer, telegraphic transfer and/or bank's acceptance notes within 5 to 30 days after the condition precedents to payment have been satisfied. Condition precedents include, proof of various payments and receipt of plant, document related to the plant, VAT invoice and financing facility in certain cases. We usually offer warranty period to the end-users for a period of 12 months commencing from the date of acceptance of goods or 15 months commencing from the date of delivery or shipment, whichever is earlier. The tripartite sales contract may be terminated under certain cases, for example, the payment or delivery obligation cannot be fulfilled within the agreed timeframe. We offer a guarantee under the tripartite sales contract or a separate repurchase contract

to repurchase our products in case the end-users breach their obligation under the equipment leasing contract. The penalty for breach of the repurchase undertaking is a daily interest of 0.03% to 0.1% until the outstanding sum is fully paid. In addition, we entered into supplemental agreement and service agreement with one of the finance leasing companies. According to the supplemental agreement, we are required to pay a security deposit within a range of 3% to 10% of the total purchase price to the finance leasing company and it will be deducted or forfeited if the end-users defaulted in payment. Depending on terms of the service agreement, we may be required to pay a service charge of up to approximately 10.0% of the sales price to that finance leasing company. Our PRC Legal Advisers confirm that provision of finance lease services does not fall under the "Prohibited" or the "Restricted" category in either the Catalogue for the Guidance of Foreign Investment Industries (2011 Revision)* (《外商投資產業指導目錄》(2011年修訂)) (the "**Catalogue**") and the Catalogue for the Guidance of Foreign Investment Industries (2015 Revision)* (《外商投資產業指導目錄》(2015年修訂)) (the "**Revised Catalogue**") and therefore our arrangement with finance leasing companies complies with the Catalogue and the Revised Catalogue.

During the Track Record Period, our sales to finance leasing companies amounted to approximately RMB12.3 million, RMB47.9 million and RMB32.3 million, respectively, accounting for approximately 3.8%, 13.6% and 8.4% of our revenue from the sale of asphalt mixing plants, respectively. As at 31 December 2012, 2013 and 2014, our maximum exposure guarantee obligations amounted to approximately RMB18.0 million, RMB25.7 million and RMB32.7 million, respectively. As at the Latest Practicable Date, we had not received any demand from these finance leasing companies to perform our guarantee obligations due to defaults by end-user. For details of our contingent liabilities under these guarantees, please refer to the section headed "Financial Information – Contingent liabilities" in this document.

Distributors

We appoint distributors to promote the sale of our products in areas where we have limited market coverage. We select our distributors based on a number of factors, including their financial strengths, their sales teams and capabilities and their client base. As at the Latest Practicable Date, we had a total of 14 distributors, 9 of which were in the PRC and 5 of which covering Russia, India, Poland and certain countries in Africa. All of our distributors are Independent Third Parties.

We generally enter into a framework distributorship agreement with our distributors on a yearly basis and a distribution service agreement on a purchase order basis.

Framework Distributorship Agreement

We typically enter into one year framework distributorship agreement with our distributors which is renewed automatically at the end of each term, unless a party gives two or three months' prior notice of non-renewal. We will set a target of the number of asphalt mixing plants that we would expect our distributors to sell each year and the target market share of the local market (in terms of the numbers of asphalt mixing plants sold) that we would expect our distributors to achieve. If any of our distributors fails to meet its performance targets in consecutive years, we are entitled to terminate the distributorship agreement. Since the beginning of the Track Record Period, we have terminated the distributorship agreements with two distributors in the PRC in 2013 and one distributor in the PRC in March 2015 as a result of their failure to meet their performance

targets. In February 2015, we notified another distributor in the PRC that the distributorship agreement will be terminated in March 2015.

The framework distributorship agreement will provide whether a distributor is granted an exclusive or non-exclusive right to distribute our products in a geographical region. We have appointed only one distributor in each region in which we have presence and there is no overlapping geographical coverage. As at the Latest Practicable Date, two out of the 9 distributors in the PRC and four out of the five distributors outside the PRC were granted exclusive distributorships in various designated areas.

Our distributors may decide on the selling price of our products. However, we will set a minimum price based on a specified discount to our listed price to our distributors.

Once our distributor successfully secures an order from a customer, the distributor may decide to either (i) refer the customer to us and act as a mere sales agent in exchange for distribution fee; or (ii) enter into a sale and purchase contract with us to purchase our product and re-sell it to the intended customer. The subsequent sales contracts entered into between our distributors and the customer will normally contain similar terms as the sale and purchase contracts we enter into with our distributors.

Distributors acting as Sales Agent

Once our distributor decides to refer customer to us and act as a mere sales agent, we will enter into a distribution service agreement with the said distributor and we will enter into sale and purchase contract in relation to the asphalt mixing plant directly with the customer setting out the price agreed between the distributor and the customer. Under the distribution service agreement, the distributor is not allowed to sell, distribute or manufacture similar products without our written consent. The payment of distribution fee is subject to actual receipt of purchase price from the customer and the percentage of the fee to be paid varies from case to case. In the event of cancellation of the sale and purchase contract made between us and the customer, we have the discretion to vary or to pay no distribution fee at all. During the Track Record Period, the average distribution fee we paid to our distributors on an annual basis was in the range of approximately 9.1% and 11.9% of the revenue of the contracts. The distribution service agreement will be terminated if (i) we fail to execute the contract with the customer within 6 months after signing of the said agreement; or (ii) the framework distributorship agreement has been terminated. The agreement can also be terminated if the defaulting party fails to remedy a breach within a specific time.

During the track record period, our sales of asphalt mixing plants to customers through distributors acting as our agents represented approximately 24.2%, 22.0% and 30.4% of our revenue from the sale of asphalt mixing plants, respectively.

Sale and Purchase Contract with Distributors

One of our distributors in the PRC, who is also one of our five largest customers during the Track Record Period, had bought our products for reselling purposes ("**Distributor A**"). Distributor A had purchased 8 units from us during the Track Record Period. The sale and purchase contracts we entered into with Distributor A contain similar terms as the sale and purchase

contracts we entered into with our direct customers. Payment terms are negotiated on a case by case basis, deposit is between the range of 10% to 30% and in certain cases, no deposit is required. Payments of up to 80% to 90% are usually settled by way of instalments within a period of up to 24 months. Distributor A will typically retain 10% to 20% of the contract sum as retention money, which will be paid upon the expiring of the warranty period. During the Track Record Period, there was no product return from Distributor A and revenue from the sale of asphalt mixing plants to Distributor A amounted to approximately RMB16.2 million, RMB4.9 million and RMB27.8 million, respectively, accounting for approximately 5.0%, 1.4% and 7.2% of our revenue from the sale of asphalt mixing plants, respectively.

Delivery and assembling of asphalt mixing plant

We are usually responsible for the delivery of the asphalt mixing plant to the location designated by the customers of our distributors. For further details, please refer to "Manufacturing Facilities and Process – Delivery, Installation and Assembly of Asphalt Mixing Plants" in this section.

After-sale services

In most cases, we are usually responsible for providing the same after-sale services to the customers of our distributors as those we provide to our direct customers during the warranty period. Please refer to the paragraph headed "Our products and services – Services" in this section for details of our after-sales services.

We believe that our distributorship model is a relatively fast and inexpensive approach to improving market penetration compared with the direct-sales approach and it is commonly adopted by our competitors. In addition, it provides more and swifter market intelligence to us especially in the regions where we do not have sufficient coverage or any coverage at all. We will try to keep a balanced approach in expanding our business through strengthening our own sales capability as well as appointing new distributors.

We had a relatively stable relationship with our distributors during the Track Record Period. During the Track Record Period, we did not engage new distributor and there were only two PRC distributors whose distribution agreements with us had not been renewed. The primary reason for the non-renewal of the distribution agreements with these two of our PRC distributors was that these distributors had failed to meet our performance targets. Since 1 January 2015 up to the Latest Practicable Date, we have appointed one new distributor in the PRC and we have terminated the distributorship of two distributors in the PRC. The existing 14 distributors has remained our distributors since their first appointments as our distributors.

We regularly monitor the performance of our distributors and their customers' feedback on our services. Our distributors regularly provide us with information on local market intelligence, which we will use to better formulate our sales strategy.

Credit Management

As part of our ongoing credit control procedures, our management monitors the creditworthiness of customers to whom we grant credit in the usual course of business. Credit exposure limits are established to avoid concentration risk with respect to any single customer.

Before we accept orders from our 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 to pay, taking into account 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 we would offer under our established policies, depending on the terms that our customers request for, the sales personnel must seek approval from regional manager, sales director and/or our executive Director.

With respect to the collection of trade receivables, we send payment reminder to our customers one month before the due date for payment. Our sales personnel are responsible for follow-up work on overdue balances on a regular basis. They may liaise with our customers enquiring about the status of their road construction or maintenance projects, or visit the customers in person if necessary. For any overdue balance, our finance department sends payment reminder letters to our customers. The collection status and overdue analysis is reported to our sales department on a bi-weekly basis. Our 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. Our management team works closely with our sales personnel to conduct regular reviews of repayment states of customers with overdue trade receivable balances. Our management will from time to time review, and if appropriate, revise and update our credit policy and internal control procedures for trade receivables collection.

Pricing policy

When determining the sale price of our products, we consider a number of factors which are mainly market-oriented based on market acceptance and assessment of market value of our products. We also consider factors such as the costs of raw materials, parts and components for our products, transportation costs, technical contents of our products and selling price of similar products by our competitors. While we have a listed selling price for each of our products, our sales team may, depending on the circumstances with permissible scope, offer certain discounts to our listed sales price to our customers.

Products return and warranty

We have not set any unsold goods return arrangement with our customers or distributors. During the Track Record Period, there was no return of any asphalt mixing plant sold to our customers. For the distributor which purchases our products for reselling purposes, because of the size and purchase price of our asphalt mixing plants, the distributor will not keep an inventory of our asphalt mixing plants. Typically, the distributor will purchase our products after it has received a purchase order of our products from its customers. As such, we have not set any unsold goods return arrangements with the distributor. During the Track Record Period, none of the asphalt mixing plants sold to the distributor or its customers had been returned.

We usually offer our direct customers and end-users under finance leases warranty period for a period of 12 months commencing from the date of acceptance of goods or 15 months commencing from the date of delivery or shipment, whichever is earlier. In certain cases, usually in contracts with overseas customers or customers with overseas projects, we offer a longer warranty period of 18 to 24 months. During the Track Record Period, we had made provision for product warranty of approximately RMB1.0 million, RMB1.7 million and RMB1.5 million, respectively.

Sale of spare parts and components and provision of equipment modification services

We typically enter into sale and purchase agreement with our customers. The terms vary from contract to contract as they are based on negotiation with our customers. We typically request for a deposit within the range of 10% to 60%. The residue payment is to be settled upon delivery of goods, by instalments or on other terms as agreed between us and our customers. Typically, the warranty period for spare parts is 3 months and for equipment modification service is 6 months. Our sales department is responsible for the sale of spare parts and components and provision of equipment modification services to our customers.

Operating lease of our products

During the Track Record Period, we entered into equipment leasing contracts with our customers for a period ranging from 4 months to 16 months depending on the length of the customers' projects. In certain cases, we require the lessees to pay a deposit between the range of RMB300,000 to RMB1,000,000 which will be set off against the rental. The rental is calculated based on unit price per tonne of the asphalt mixtures produced and is normally within the range of RMB11 to RMB14 per tonne, and payment is settled on monthly basis. The production quantity of a project is usually between 100,000 to 300,000 tonnes. If the total production quantity is lower than the minimum quantity required by the contract, the rental will be charged based on the minimum production quantity agreed. On the contrary, if the production quantity exceeds the minimum quantity required, rental will be calculated based on the total quantity produced per unit price agreed. We are entitled to terminate the contract, retrieve the plant and claim damages upon default of the leasee. In most cases, the defaulting party is also obliged to pay damages equivalent to a sum of 10% of the total contract price as well as all transportation cost incurred. We are responsible for the operation and maintenance of the plants in most cases and penalty will be incurred if we are unable to repair the plant in case of breakdown within specific days as stipulated in the contract. The leasee is liable to pay a sum of RMB10,000 to RMB20,000 per day in the event of delay in handing over the equipment after the contract has expired or terminated. During the Track Record Period, we had not paid any penalty for failure to repair the plant.

Marketing

We place great emphasis on the promotion of our brands and products. To assist us to formulate our marketing strategies, we regularly collect market information from the internet and other media, industry associations, our sales, research and development and service teams as well as our distributors, and obtain feedback on our products from our customers. We work with our distributors to establish market demand for our products and to develop our marketing strategies. We conduct periodic training to our sales team and distributors to ensure that they are able to proactively introduce the features and benefits of our products to potential customers.

Our service personnel will also collect customers' feedback during the course of providing after-sales services and promote the sale of our spare parts and components to our customers.

BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

The U.S., the E.U., Australia and the U.N. have economic sanctions targeting certain Sanctioned Countries. We had past product sales connected with certain of the Sanctioned Countries, namely Libya and Russia, during the Track Record Period and we still carry out such business activities connected with these Sanctioned Countries. During the Track Record Period, we had one product sale in Libya directly to our customer and product and parts and components sales in Russia, directly to customers or indirectly through our distributors. The revenue from our sales of products and spare parts in Libya and Russia accounted for approximately 9.9%, 10.2% and 6.2% of our total revenue for the years ended 31 December 2012, 2013 and 2014.

Given (i) the Group's business activities in the Sanctioned Countries, such as Libya and Russia, are not prohibited activities under U.S., E.U., Australian or U.N. sanction laws; (ii) the U.S., E.U., Australian or U.N. sanction laws do not apply to our Group members which were operating in the Sanctioned Countries based on their jurisdictions of incorporation; and/or (iii) none of our contract counterparties in the Sanctioned Countries was designated under any of the applicable E.U., U.S. or U.N. sanctions lists at the relevant time, Minter Ellison and Norton Rose Fulbright LLP, our legal advisers as to international sanction laws, advised that our historical sales to the Sanctioned Countries or the entering into of sale and purchase contracts with customers in the Sanctioned Countries during the Track Record Period do not provide any basis on which a competent authority could take any enforcement action under the relevant sanction laws against our Group, our Directors, the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors. As at the Latest Practicable Date, we have not been notified that any U.S., E.U., Australian or U.N. sanction would be imposed on us.

We had entered into a contract for the sale of one asphalt mixing plant in Russia to our distributor for the sales price of approximately RMB6.1 million in December 2014. As at the Latest Practicable Date, the plant had been delivered to the end user pending acceptance by the end user. Subsequent to the Track Record Period and up to the Latest Practicable Date, we had not made any product sales in the Sanctioned Countries. Nonetheless, we are in negotiation with potential Russian customers for the sale of three asphalt mixing plants to Russia. We do not expect any material increase in our revenue from product sales to the Sanctioned Countries after Listing. We will continue to evaluate and monitor our existing and ongoing business in the Sanctioned Countries in order to control our exposure to sanction risks. In assessing whether to continue our existing and ongoing business and whether to embark on new business opportunities connected with the Sanctioned Countries, we would take into account: (i) whether the relevant business

activities involve any industries or sectors that are subject to any applicable sanctions; (ii) whether the counterparties to the relevant transactions have become subject to any economic sanctions; (iii) the size and value of the business activities as a percentage of our total revenue; and (iv) the potential risk to us of continuing such activities.

Our undertakings and internal control procedures

We have undertaken to the Stock Exchange:

(i) that we will not use the proceeds from the **[REDACTED]**, or any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with any Sanctioned Country which are prohibited under international sanction laws and regulations or with any Sanctioned Person;

(ii) that we have no present intention to undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors to violate or become a target of sanctions laws of the E.U., the U.N., the U.S. or Australia;

(iii) to disclose on the respective websites of the Stock Exchange and our Company if we believe that the transactions our Group entered into in relation to a Sanctioned Country would put us or our Shareholders and investors at risk of being sanctioned; and;

(iv) to disclose in our annual reports or interim reports our efforts in monitoring our business exposure to sanctions risk, the status of future business, if any, in the Sanctioned Countries and our business intention relating to the Sanctioned Countries. If we were in breach of such undertakings to the Stock Exchange, we risk the possible delisting of our Shares on the Stock Exchange.

To monitor our exposure to sanction risks and to ensure compliance with the undertakings to the Stock Exchange, we have adopted the internal control measures, including measures recommended by the internal control consultant, as described below:

- We have established an internal control committee. The members of such committee comprise the chief financial officer of our Group from time to time (currently Mr. To Kwong Yeung) and the assistant to the chief executive officer of our Group from time to time (currently Ms. Ng Po Fung) and their responsibilities include, among others, monitoring our exposure to sanction law risks and our implementation of the related internal control procedures and reporting to our Board. Our internal control committee will hold at least two meetings each year to monitor our exposure to sanctions law risks and will report to our Board as soon as practicable after each such meeting.

- We will evaluate the relevant sanction risks prior to determining whether we should embark on any business opportunity. According to our internal control procedures, the internal control committee needs to review and approve all relevant business transaction documentation connected with Sanctioned Countries and/or Sanctioned

Persons. In particular, the internal control committee will review the information (such as identity, nature of business, etc.) relating to the counterparty to the contract along with the draft business transaction documentation. The internal control committee will check the counterparty against the various lists of restricted parties and countries maintained by the E.U., the U.N., the U.S. or Australia and determine whether the counterparty is, or is owned or controlled by, a person located in a Sanctioned Country or a Sanctioned Person. If any potential sanction risk is identified, we will seek advice from a reputable external international legal counsel with the necessary expertise and experience in international sanction law matters.

- In order to ensure our compliance with these undertakings to the Stock Exchange, the internal control committee will continuously monitor the use of proceeds from the **[REDACTED]**, as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Sanctioned Country which are prohibited under international sanction laws and regulations or any Sanctioned Person.

- Our internal control committee will periodically review our internal control policies and procedures with respect to sanction law matters and report to our Board thereon. As and when the internal control committee considers necessary, we will retain an external international legal counsel with the necessary expertise and experience in sanctions law matters for recommendations and advice.

- If necessary, an external international legal counsel will provide training programs relating to the sanction laws to our Directors, our senior management, our legal and compliance department and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations.

Taking into consideration the internal control measures set out above, our Directors and the Sole Sponsor are of the view that these measures will provide a reasonably adequate and effective internal control framework to assist us in identifying, monitoring and mitigating any material risk relating to sanction laws so as to protect the interests of the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders, potential investors and us.

RESEARCH AND DEVELOPMENT

We recognise the importance of our research and development capabilities to our business. To maintain our position as one of the leading manufacturers of asphalt mixing plants in the PRC, it is important to maintain our strong research and development capabilities. Our technology research and development center is a dedicated department that carries out research and keeps us up-to-date with the trends of the international industry, and develops state-of-the-art technology. We strive to ensure that our asphalt mixing plants comply with international standards and achieve good performance-price ratio. Our research and development team is led by Mr. Zhao Xiongzhi, a member of our senior management. As at the Latest Practicable Date, our research and development team consisted of 71 staff, 41 of which are qualified engineers with experience in machinery design and manufacturing, and have worked for our Group for an average 6 years. The majority of our qualified engineers has at least 9 years of experience in the industry.

For the years ended 31 December 2012 and 2013 and 2014, our research and development expenditures amounted to approximately RMB13.4 million, RMB13.9 million and RMB14.4 million, respectively, among which research and development expenses were approximately RMB13.4 million, RMB13.9 million and RMB8.8 million, respectively.

Our expenditures on research and development in 2012 and 2013 were mainly attributable to the investigation and evaluation undertaken to obtain the technical knowledge and understanding of the performance improvement and process customisation of recycling plants. Those expenditures were recognised as expenses in 2012 and 2013 when they were incurred. In 2014, the expenditures incurred as a result of similar research activities were also recognised as expenses. In March 2014, we began to develop the prototype or pilot Monoblock Recycling Plant based on the results of the research activities and incurred costs with respect to the construction of such prototype plant. These costs primarily included the cost of raw materials consumed and conversion cost incurred in the construction process of the prototype Monoblock Recycling Plant. The construction of plant was completed in August 2014.

In respect of those costs that are directly attributable to the construction of prototype Monoblock Recycling Plant, our management is satisfied that (a) the plant is technically feasible of being completed based on the results of the research activities so that it will be available for use or sale; (b) we have the intention to complete and use or sell it; (c) we have the ability to use or sell in accordance with the evaluation of the market demand; (d) the plant will generate probable future economic benefits as there is an existing market for recycling of used asphalt in a more efficient way; (e) there is adequate technical, financial and other resources available to complete its construction and to use or sell the plant with reliable measurement on relevant expenditures attributable to such plant. As such, we concluded that such costs of approximately RMB5.6 million met the recognition criteria under the relevant Hong Kong accounting standards and had capitalized such costs as development costs as incurred in 2014.

As a result of our research and development efforts, we have developed and launched many new products which are critical to the development of our business, including:

Year of Launch	Products
2001	We developed and launched 2000 model series asphalt mixing plants into the market.
2002	We developed and launched 3000 model series asphalt mixing plants into the market.
2003	We were the first in the PRC to develop and launch 4000 model series asphalt mixing plants into the market. We were the first in the PRC to develop and launch the Recycling Plants and Double Drum Recycling Plants with 15% and 50% designed RAP added capacity respectively into the market.
2004	We successfully developed the "DG Leap" automated control and production management system, a real-time production management system designed by us which enables our customers to control the asphalt mixing plant and collect and analyse production data.
2009	We were the first in the PRC to develop and launch the Recycling Ring Recycling Plants. We were the first in the PRC to develop and launch 5000 model series asphalt mixing plants into the market.
2010	We successfully developed and added a remote monitoring system to the "DG Leap" automated control system. This system allows us to remotely control and monitor the manufacturing process and diagnose any problem occurred therein through a wireless network.
2014	We were the first in the PRC to develop and launch the Monoblock Recycling Plant into the market. We successfully developed the bitumen foaming system for warm-mix asphalt mixture production.

For a detailed description and development of our products, please refer to the paragraph headed "Products" of this section.

As at the Latest Practicable Date, we had also developed and owned (i) 39 registered patents in the PRC, of which 3 were invention patents and 36 were utility model patents; (ii) 2 invention patents pending registration in the PRC; and (iii) 22 software copyrights in the PRC. For details of these intellectual property rights, please refers to paragraph headed "Appendix IV – Statutory and General Information – Intellectual property rights of our Group" in this document.

The following sets out some of the research and development projects in which we had collaborated with other research institutions during the Track Record Period:

	Name of research institute	Areas of research	Term	Rights to the research results
1.	Research Institute of Highway, Ministry of Transport* (交通運輸部公路科學研究所)[(1)]	– Improvement or upgrade of Recycling Plants[(a)] – Training and technical service in relation to the RAP recycling technology[(a)] – Research on performance of asphalt mixtures with higher percentage of RAP produced through hot mix asphalt mixing process[(a)] – Research on hot mix recycling technology on RAP produced by road maintenance on styrene-butadiene-styrene block copolymer (丁苯熱塑橡膠) asphalt road pavements[(a)] – research on warm-mix asphalt foaming mixing technology[(b)]	(a) From January 2012 to 30 December 2017 (b) From 1 January 2015 to 31 December 2017	We have joint rights to the intellectual property rights or proprietary technology arising from the research results and we may use the research results in our products free of charge.
2.	The Institute of Tsinghua University, Hebei* (河北清華發展研究院)[(2)]	– Improvement on the design and development of new technology of the aggregates drying system of asphalt mixing plants	From 4 January 2013 to 31 December 2015	We have joint rights to the intellectual property rights or proprietary technology arising from the research results.

Notes:

1. The Research Institute of Highway, Ministry of Transport* (交通運輸部公路科學研究所) is set up by the Ministry of Transport of the PRC to undergo research in areas including roadwork projects, bridge projects.

2. Institute of Tsinghua University, Hebei* (河北清華發展研究院) was established on 12 August 2002 jointly by the Hebei province government and Tsinghua University. It is under the direct management of the Hebei Development and Reform Commission.

Through our collaboration with the Research Institute of Highway, Ministry of Transport* (交通運輸部公路科學研究所), we have developed our bitumen foaming system for warm-mix asphalt mixture production. We developed the first Monoblock Recycling Plant in the PRC in 2014. Please refer to the paragraph headed "Our Products and Services – Products – Hot-mix asphalt mixing recycling plant" for details of our Monoblock Recycling Plants. We have obtained one patent in the PRC and we are applying for registration of one other patent in the PRC in relation to our Monoblock Recycling Plant. Our bitumen foaming system is designed for the production of warm-mix asphalt mixture. In our hot-mix asphalt mixing plants, materials such as the aggregates and bitumen as well as our asphalt mixtures are required to be heated to a required temperature for processing. When producing warm-mix asphalt mixtures with our bitumen foaming system, the temperature that these materials and asphalt mixtures are required to be heated will be approximately 20°C to 30°C lower than that required in hot-mix asphalt mixture production. The lowering of the temperature for the heating of the aggregates, bitumen and the asphalt mixtures in our plants leads to a cut down on the energy consumption for the production of asphalt mixtures and emission of pollutants . Our bitumen foaming system, developed by us in 2014, can be installed into asphalt mixing plant for the production of warm-mix asphalt mixture. We have obtained one patent in the PRC and we are applying for registration of another patent in the PRC in relation to the bitumen foaming system.

On 12 October 2012, we entered into a cooperation agreement with the Institute of Tsinghua University, Hebei* (河北清華發展研究院), for the establishment of "Resources Recycling Intelligent Equipment Technology Institute, the Institute of Tsinghua University, Hebei and D&G* (河北清華發展研究院德基資源循環利用智能裝備技術研究所)" ("**Tsinghua D&G Technology Institute**"). The main purpose of the Tsinghua D&G Technology Institute is to research and develop intelligent equipment and core and critical parts and process with a focus on energy saving, emission reduction, environmental protection and recycling aspects of resources recycling.

Pursuant to the cooperation agreement with the Institute of Tsinghua University, Hebei* (河北清華發展研究院), we are generally responsible for the funding of the Tsinghua D&G Technology Institute. For research projects undertaken by the Tsinghua D&G Technology Institute at our request or that involve direct funding from the PRC national or local government, the Tsinghua D&G Technology Institute will have proprietary rights in the results of the research projects (unless otherwise provided in the relevant national project research contract) but we are entitled to use such results free of charge and we have priority in acquiring the proprietary rights if the terms of the other offers are the same. For other research projects to be undertaken by the Tsinghua D&G Technology Institute, the research contracts will set out which party will have the proprietary rights in the results of the research projects. The research project in item 2 of the table above is a project undertaken by the Tsinghua D&G Technology Institute pursuant to the cooperation agreement.

In April 2014, we have gone through the expert verification stage for the establishment of the "Hebei Asphalt Pavement Intelligent Equipment Technology Research Centre* (河北省瀝青路面智能裝備工程技術研究中心)" ("**Research Centre**") jointly with The Research Institute of Highway, the Ministry of Transport* (交通運輸部公路科學研究所) and the Institute of Tsinghua University, Hebei* (河北清華發展研究院) and the Research Centre was formally recommended to be included in the Hebei Provincial engineering technical research centre establishment plan in June 2014. In July 2014, we entered into a proposal regarding the project on the establishment of the "Hebei Asphalt Pavement Intelligent Equipment Technology Research Centre* (河北省瀝青路

面智能裝備工程技術研究中心)" ("**Research Centre**") jointly with The Research Institute of Highway, the Ministry of Transport* (交通運輸部公路科學研究所) and the Institute of Tsinghua University, Hebei* (河北清華發展研究院). Pursuant to such proposal, the establishment phase of the Research Centre began in May 2014 and is expected to be completed by November 2015. During the establishment phase, the Research Centre conducts research in a number of areas, including new Recycling Plants, RAP recycling and warm mix process, new mixing plants with recycling and environment friendly features such as warm mix foaming components and new multifunctional mixing plants such as plants with self-diagnostic software on problems of the automated control system of asphalt mixing plants and long distance network video service system. We expect to incur approximately RMB19.6 million for the research and operation of the Research Centre at the establishment phase.

As recognition of our research and development capabilities, we have won a number of awards in the PRC. For details of our awards, see "– Awards and Honours". Furthermore, our subsidiary, Langfang D&G, has been accredited as high-technology enterprise jointly by the Hebei Provincial Department of Science and Technology, Hebei Provincial Department of Finance, Hebei Provincial Office of State Administration of Taxation and Hebei Local Taxation Bureau for a period of three years from 2011 to 2013. As advised by our PRC Legal Advisers, Langfang D&G's high-technology enterprise certificate has been renewed for three years from September 2014 to September 2017, and as such, Langfang D&G is entitled to the preferential EIT rate of 15% from 2014 to 2016 after completing the filing procedure with the local PRC tax bureau. Langfang D&G has completed the relevant filing procedure on 10 April 2015 and our PRC Legal Advisers have confirmed that we are entitled to the preferential EIT rate for the financial year 2014 retrospectively.

QUALITY CONTROL

We consider product quality to be critical to our business and have put in place quality control measures throughout the production process. We conduct quality control tests at different stages of the production process, including inspection of our raw materials and semi-finished products, trial-assembly and trial run of plant, inspection and commissioning of components as well as quality testing on finished products. We have compiled quality management manuals, established quality control procedures and adopted quality control standards. We adopt the latest 3D design technology and highly efficient production and processing technology. Frock, work tools and testing platforms with detection devices including the mixer testing platform, vibrating screen testing platform, dryer testing platform and automated control system simulation test bench are used to ensure that we deliver stable and quality products to our customers.

We assess our suppliers and subcontractors in accordance with specified criteria on pricing, quality of raw materials, parts and components and quality of service. Before entering into business relationship with any new supplier or subcontractor, we usually assess the background and performance of the supplier or subcontractor to assess its suitability. Suppliers and subcontractors are chosen based on their ability to provide timely delivery of good quality products in the required quantities at reasonable prices and also their ability to provide good services. Our quality control department monitors the quality of the raw materials, parts and components supplied by our suppliers and subcontractors. We entered into a quality assurance agreement with our subcontractors who supply structural components to us, pursuant to which subcontractors are required to manufacture parts and components which comply with our quality specifications and to

produce certificate in relation to the quality of materials supplied used upon request. We are entitled to conduct onsite inspection of the quality of the parts and components if necessary. We randomly inspect parts and components supplied by our subcontractors from time to time. Any parts and components that fail to meet our requirements will be returned to the relevant supplies or subcontractors.

We carry out pre-storage inspection on the raw materials, parts and components that we have procured to check if they comply with the required quality and specifications before we send them for storage or subsequent processing. Raw materials, parts and components that fall short of the required standards will be rejected. We also trial-assembled the mixing tower of a plant comprised of semi-finished components in order to assess the safety of the structure that will be set up at the site. We will then assemble, inspect, conduct commissioning on each semi-finished component and carry out surface treatment on the components. We use a self-developed vibration amplitude detector to detect and test the vibration amplitude of our vibration screen. We have obtained one patent in the PRC in relation to the vibration amplitude detector. Our vibration amplitude detector is able to collect vibration amplitude data from the testing points on a consecutive basis and transmit such data to the control system. Finally, we run tests to determine if the finished products comply with the requisite standard. Upon passing the tests, finished products will be dismantled, packed and stored or delivered to our customers. We believe that the trial-assembly and trial run of our plants prior to delivery could improve the stability of our plants and help us to identify and fix any potential issues that could occurred during the actual assembly and installation, thereby facilitate a smoother assembly and installation process at our customers' site.

Our products have obtained the ISO9001:2008 Quality Management System certification, ISO14001:2004 Environmental Management System certification and the OHSAS18001: 2007 Occupational Safety and Health Management System certification. In addition, we have obtained the CE mark in 2009 which indicates that our products are in compliance with the E.U. safety, health and environmental protection requirements and are eligible to be sold in the market in the European Economic Area. Our products have obtained similar conformity certification for goods in Australia.

As at the Latest Practicable Date, we had 12 employees on our quality control team and the team is led by Mr. Zhao Xiong Zhi, one of the members of our senior management. For details of Mr. Zhao's qualification and relevant experience, please refer to the section headed "Directors, Senior Management and Staff" in this document. Some of our quality control personnel are qualified technician and some have obtained qualification for the quality professional. In addition, approximately 20 of our employees from different departments have completed internal auditor training relating to ISO9001:2008 Quality Management System certification, ISO14001:2004 Environmental Management System certification and the OHSAS18001: 2007 Occupational Safety and Health Management System.

We have an internal control system to record and handle customers' complaints on product quality. If we receive any complaint on our product quality, staff in our sales department will record all the details and inform the responsible person of the relevant department(s) to investigate the reason for the product quality issues and put forward measures to rectify the issues and prevent the occurrence in the future.

During the Track Record Period, we did not receive any material complaints from our customers and our products and services rendered had not been subject to any material claims, litigation or investigation due to product liability.

COMPETITION

According to the CCID Report, the asphalt mixing plants in the PRC can be broadly divided into the small scale asphalt mixing plants and medium to large scale asphalt mixing plants based on the type of road construction or maintenance projects in which the plants are used and the level of technical capabilities required to manufacture the plants. During the Track Record Period, we generated the majority of our revenue from the sale of medium to large scale asphalt mixing plants and such revenue accounted for approximately 84.0%, 85.1% and 91.2%, of our revenue from the sale of asphalt mixing plants, respectively. We also generated some revenue from the sale of small scale asphalt mixing plants during the Track Record Period and such revenue accounted for approximately 16.0%, 14.9% and 8.8%, of our revenue from the sale of asphalt mixing plants respectively. In 2012 and 2013, the majority of our revenue generated from the sale of small scale asphalt mixing plants was generated through direct and indirect export sales. In 2014, around 47.9% of our revenue generated from the sale of small scale asphalt mixing plants was generated through direct and indirect export sales.

We face competition from domestic and international asphalt mixing plant manufacturers in the medium to large scale asphalt mixing plant market. According to the CCID Report, the medium to large scale asphalt mixing plant market is dominated by approximately 15 domestic and international asphalt mixing plant manufacturers, including us.

The following table set forth the total number of the medium to large scale asphalt mixing plants manufactured in the PRC and sold in 2013 according to the CCID Report:

Company	**Unit Sold (3000 model series and above)**	**Market Share**
Company A *Note 1*	59	19.8%
The Company	41	13.8%
Company B *Note 2*	39	13.1%
Company C *Note 3*	23	7.7%
Company D *Note 4*	17	5.7%
Others	119	39.9%
Total	298	100.0%

Notes:

1. Company A is a member of a PRC non-state owned group company listed on the Shanghai Stock Exchange engaged in the manufacturing of road construction machinery and equipment.

2. Company B is a member of a PRC state owned group company listed on the Stock Exchange and the Shanghai Stock Exchange specialising in manufacturing of road construction and maintenance machinery.

3. Company C is an international European based manufacturer with presence in the PRC specialising in the production of asphalt plants, road building machinery and road maintenance equipment.

4. Company D is an international European based manufacturer with presence in the PRC engaged in the production of mixing plants, machines and providing services to the construction industry with core expertise in road building and transportation infrastructure.

Based on the table above, the medium to large scale asphalt mixing plants manufactured in the PRC and sold by the top five asphalt mixing plant manufacturers accounted for approximately 60.1% of the total medium to large scale asphalt mixing plants manufactured in the PRC and sold in 2013 and we ranked second with market share of approximately 13.8%.

The competition in the PRC medium to large scale asphalt mixing plant market is intense, mainly due to customers' sophistication and familiarity with asphalt mixing plant manufacturers and their products. Asphalt mixing plants are typically operated by professional road construction companies, with users being more sophisticated and bearing a greater understanding for equipment operations. As such, we compete against other manufacturers in this market based on reliability of the plants, performance-price ratio of the plants as well as customer relations.

Although we had sold small scale asphalt mixing plants during the Track Record Period, the small scale asphalt mixing plant market was not the market that we focused on during the Track Record Period. According to the CCID Report, based on the sales volume of small scale asphalt mixing plants manufactured in the PRC and sold in 2013, our market share was approximately 2.3%. In the small scale asphalt mixing plant market, we also face intense competition mainly from domestic asphalt mixing plant manufacturers. In addition to the customers' sophistication and familiarity with asphalt mixing plant manufacturers and their products, there is a larger number of manufacturers which are capable of manufacturing small scale asphalt mixing plants on a mass production scale. According to the CCID Report, there were about 40 asphalt mixing plant manufacturers in 2013 that were capable of manufacturing 2000 model series or below to 4000 model series asphalt mixing plants on a mass production scale. According to the range of market prices of small scale asphalt mixing plants shown in the CCID Report, the average selling prices of our small scale asphalt mixing plants during the Track Record Period was at the high end of the range. There is intense price competition in this market because of the relatively low technical barriers to entry to this market. As such, we compete against other manufacturers in this market based on the technical capabilities to manufacturing such plants, reliability of the plants as well as comprehensive services.

In terms of the type of products, as the PRC government has in recent years been promoting environmental protection and encouraging the use of environmental friendly equipment and products, such as recycled asphalt mixtures, we expect that the demand for Recycling Plants will grow in the near future. Our existing competitors and perhaps an increasing number of new comers may try to penetrate this market and thereby increasing the competitive landscape in this market.

According to the CCID Report, there are certain barriers of entry to the medium to large scale asphalt mixing plants market. Firstly, due to the higher technical capabilities required for the manufacture of medium to large scale asphalt mixing plants associated with higher productivity, such as those relating to noise control and product reliability, only a small number of manufacturers with high research and development capabilities could compete in this market. This creates a technical barrier of entry against new comers. Secondly, asphalt mixing plant involves multiple subsystems and numerous core components. For medium to large scale asphalt mixing plants, the domestic customers will usually request the manufacturers to import high-end components produced by international manufacturers to be used in the core system of the plants. Bulk purchase of imported components and longer repayment term may deter small scale manufacturers from entering the market as they may not have sufficient financial background to support this type of purchases. Thirdly, the PRC government has imposed more stringent

environmental protection requirements on the development of asphalt mixing plants. Only those manufacturers which posses the technology for developing energy saving and environmentally friendly asphalt mixing plants would be able to complete in this market.

EMPLOYEES

As at 31 December 2014, we had a total of 409 full time employees and 13 employees who should have retired after reaching retirement age but were subsequently re-employed by us, of whom 413 are located in the PRC, 9 are located in Hong Kong. The following table sets out a breakdown of our employees by division as at the Latest Practicable Date:

Division	Number of employees
Management	6
Production	133
Sales and Marketing	91
Procurement and Inventory	56
Administration	29
Research and Development	71
Quality Control	12
Finance and Accounting	15
Human Resources Management	4
Legal and Compliance	10
Total	427

We enter into labour contracts with our full-time employees and service contracts with the retired employees in the PRC in accordance with applicable laws and regulations of the PRC. We also enter into confidentiality agreements with our senior management, key employees and specific number of technical staff and we enter into non-competition agreements with our senior management.

We recruit personnel from the open market. We formulate our recruitment policy based on market conditions, our business demands and expansion plans. We offer different remuneration package to our staff based on their position. In general, we pay basic salary and incentive (based on years of service) to all our employees. Our production personnel, service personnel and research and development personnel will also receive additional pay based on their individual skills. In addition, we offer performance based salary to our production personnel and sales personnel.

In order to enhance the quality of our workforce, we provide technical as well as operational training to our new employees and on-going training for all current employees. We provide training to our employees on a regular basis to improve their technical and product knowledge, and sales skills including industry quality standards, safety standards, customers' sales skills and our sales model. We also encourage our employees to take part in external seminars and training that are relevant to their work.

In accordance with the relevant requirements of the local government in the PRC where we operate, we make contribution to pension and purchase injury insurance, medical insurance, unemployment insurance, maternity insurance for our full time employees. The amount of our

contributions is based on the specified percentages of our employees' aggregate salaries as required under PRC laws and regulations. In addition, we make contributions to the employee housing fund according to applicable PRC regulations. Please refer to the paragraphs headed "Legal Proceedings and Compliance – Non-compliance" under this section for further details. In Hong Kong, we participate in a mandatory provident fund scheme established under the Mandatory Provident Fund Schemes Ordinance.

We have a labour union that protect our employees' rights, encourage employees to participate in our management and assist us in mediating disputes with union members. We maintain good working relationships with our employees. As of the Latest Practicable Date, we had not experienced any strike or any labour dispute with our employees which had a material effect on our business.

INTELLECTUAL PROPERTY

We protect our intellectual property through trademarks, patents, software copyrights and contractual rights. We submit patent applications for products and technologies that we have developed from time to time in order to proactively protect our intellectual property rights. As at the Latest Practicable Date, we had (i) 18 registered trademarks; (ii) 1 trademark pending application; (iii) 39 registered patents, of which 3 were invention patents and 36 were utility model patents; (iv) 2 invention patents pending registration; and (v) 22 software copyrights.

As at the Latest Practicable Date, we had not received any claims against us for infringement of any trademark nor were we aware of any pending or threatened claims in relation to any such infringement. Further details of our intellectual properties which are material to our business operation are set out in the paragraph headed "Appendix IV – Further Information about the Business of our Group – Intellectual property rights of our Group" in this document.

AWARDS AND HONOURS

As a result of the high quality and reputation of our products, our creditworthiness and our contribution to the community, we have been given the following awards, authentication and recognition. The following table sets forth the major awards that we have recently obtained:

Year	Major Award/ Authentication/ Recognition	Awarding Authority
2009	PRC Construction Machinery Industry (60 years) Well-known Trademark Award (中國築路機械六十年行業著名品牌獎)	China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會)
	PRC Construction Machinery Industry (60 years) Technological Innovation Award (中國築路機械六十年行業技術創新獎)	China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會)

Year	Major Award/ Authentication/ Recognition	Awarding Authority
	PRC Construction Machinery Industry (60 years) Industry Development Contribution Award" (中國築路機械六十年行業行業發展貢獻獎)	China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會)
2011-2014	PRC Top 50 Construction Machinery Manufacturers (中國(本土)工程機械製造商50強)	China Construction Machinery Association (中國工程機械工業協會)
	High technology Enterprise Certificate (高新技術企業證書)	Hebei Provincial Department of Science and Technology, Hebei Provincial Department of Finance, Hebei Provincial Office of State Administration of Taxation and Hebei Local Taxation Bureau (河北省科學技術廳、河北省財政廳、河北省國家税務局及河北省地方税務局)
2012	Outstanding Contribution Member" (突出貢獻理事單位)	China Highway Construction Machine Branch (中國公路學會築路機械分會)
2012-2014	National Advanced Applicable Mechanical And Electrical Products (4000 and 5000 model series, and Recycling Plants) (全國先進適用機電產品)	China Association of Plant Engineering (中國設備管理協會)
	National Advanced Enterprise in After-sales Service Award (全國售後服務先進單位)	PRC General Chamber of Commerce (中國商業聯合會) PRC Foundation of Consumer Protection (中國保護消費者基金會) PRC Evaluation Committee of After-sales Service (全國商品售後服務評價委員會)
	Hebei First Industrial Design Award – Golden Prize (首屆河北省工業設計獎金獎)	Industry and Information Technology Department of Hebei Province (河北省工業和信息化廳) and the Awards Committee of the Hebei Industrial Design Award (河北省工業設計獎評獎工作委員會)

LICENCES, PERMITS AND APPROVALS

Our PRC Legal Advisers are of the view that we have obtained all necessary licences, permits and approvals that are material for our business operations in the PRC.

PROPERTIES

Self-owned properties

As at the Latest Practicable Date, we owned three properties with an aggregate GFA of approximately 19,260 sq.m. and we had obtained the building ownership certificates for all these properties. We use these buildings primarily as storages, factories and our office buildings. Our PRC Legal Advisers confirm that we possess legal ownership of the properties.

Leased properties

As at the Latest Practicable Date, we rented a premise in Hong Kong with an aggregate GFA of 2,080 square feet for office use and we rented six premises in the PRC with an aggregate GFA of approximately 4,339.08 sq.m., which we used as offices, production facilities and dormitories. For the leased properties in the PRC, our PRC Legal Advisers confirm that the relevant property owners of the six premises had valid title ownership certificate as of the Latest Practicable Date.

Land

Self-owned land

As at the Latest Practicable Date, we occupied a parcel of land of approximately 100,435 sq.m. in the Hebei Province, PRC, and we had obtained the appropriate land use rights certificates for the land. As confirmed by our PRC Legal Advisers, we legally own the use rights of the land of 100,435 square meters.

Leased land

As at the Latest Practical Date, we leased one parcel of land of approximately 25.8 mu (equivalent to approximately 17,200 sq.m.), which we used as a storage area for our semi-finished and finished goods. As confirmed by our PRC Legal Advisers, the relevant land user of the land had valid title certificate for land use as of the Latest Practicable Date.

PROPERTY VALUATION

As at 31 December 2014, we had no single property with a carrying amount of 15% or more of our total assets. Accordingly, this document is exempt from the requirements under the Listing Rules and the Companies Ordinance to include a property valuation report. Pursuant to Rule 5.01A of the Listing Rules, a document is exempt from the requirement if the carrying amounts of a listing applicant's property activities and non-property activities are below 1.0% and 15.0%, respectively. A similar exemption applies under Section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect to the requirement under section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

ENVIRONMENTAL MATTERS

We are subject to PRC national and local laws and regulations on environmental protection. For further details, please refer to the section headed "Laws and Regulations" in this document.

We monitor our compliance with applicable environmental regulations relating to noise and solid waste discharge and have established an environmental control system pursuant to the applicable regulations. To discharge wastewater, exhaust fumes and noise from our manufacturing facilities, we must file reports with and obtain a discharge permit from the relevant PRC government authorities. We must also properly dispose of the hazardous solid waste generated in our production process and take measures to prevent and control pollution and hazards caused to the environment. The environmental protection authorities may inspect our manufacturing facilities from time to time and give us instructions on various aspects of our operations, with which we are required to comply.

Furthermore, we are required to conduct an environmental impact assessment, obtain approval of the assessment before commencing of construction projects, such as projects in relation to the construction of asphalt mixing plants and manufacturing facilities, complete an examination and obtain an environmental acceptance approval before commencing production. We have adopted environmental protection manuals to govern environmental related matters of our Group, including standard procedures and regulations for waste management, noise, sewage discharge, energy saving, emission as well as general environmental monitoring and control. We also have two environmental officers overseeing the implementation and compliance of the environmental protection manuals.

We endeavour to ensure that our relevant employees carry out environmental management tasks according to such manuals, documents and rules. Our Group has obtained certification for ISO14001:2004 Environmental Management System. We have also received confirmations from the local Environmental Protection Bureaus in our operation areas that we have complied with the applicable environmental laws and regulations and has not violated such laws and regulations or subject to any penalty.

For the years ended 31 December 2012, 2013 and 2014, we incurred environmental protection costs of approximately RMB0.2 million, RMB0.3 million and RMB0.3 million, respectively. Our environmental protection cost for the year ending 31 December 2015 is expected to be approximately RMB0.3 million.

HEALTH AND SAFETY

We are also required to abide by work safety laws and regulations imposed by the relevant PRC government authorities and maintain a safe working environment. We obtained the OHSAS 18001: 2007 Occupational Health and Safety Management System Certification in September 2013. We have adopted and implemented occupational health and safety procedures and measures for our business operations, and ensured that all our employees were aware of our safety procedures, protective equipment procedures and social and environmental responsibility. These include guidelines for operational and safety control procedures, occupational health management procedures, equipment operation and maintenance procedures, emergency control procedures, and social and environmental responsibility. Our employees involved in the production of our asphalt mixing plants are required to attend training courses on production and workplace safety, and certain employees with unique skill sets are required to attain special post quality control certifications. We provide, and require our employees to wear, regularly tested protective devices to ensure their safety. In addition, we provide general health and safety education and training to our staff and conduct periodical emergency drills. We also carry out workplace security inspections from time to time.

For the years ended 31 December 2012, 2013 and 2014, there were only 7, 7 and 5 minor work injury incidents, respectively. During the Track Record Period, there had not been any claim or compensation paid to our employees due to such incidents. There was no accident causing death or serious bodily injury in our business operations during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

Our Group maintains insurance policies in the PRC which cover certain assets, including our major production machinery, equipment, buildings and their improvements. We also maintain insurance policies in Hong Kong for vehicles and certain office equipment. Our insurance covers losses arising from natural disasters, such as fire, lightning, explosion, flood and so forth. We also maintain social insurance cover for our employees in accordance with the applicable PRC laws and the requirements of the local authorities.

We do not carry any production liability insurance, business interruption insurance, third-party liability insurance for personal injury or property or environmental damage arising from accidents on their property or relating to their operations, which is consistent with what we believe to be the industry practice in the PRC. Neither do we carry insurance coverage against war or acts of terrorism. We believe that our insurance policies are adequate and consistent with industry practice in the PRC. Our PRC Legal Advisers, after having made reasonable enquiries, have advised that there is no mandatory industry standard for insurance cover in the PRC. Our Directors confirm that as of the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

During the Track Record Period, we did not experience any insurance claim or receive any claim regarding the safety and quality of our products, which was material to us. For details of the risk relating to our insurance coverage, please refer to the paragraph headed " We may not have adequate insurance coverage" in the section headed "Risk Factors" in this document.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period, the annual cost of legal compliance with applicable rules and regulations were RMB73,000, RMB85,000 and RMB96,000, respectively.

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration, bankruptcy or receivership proceedings or claim of material importance, and there was no litigation, arbitration, bankruptcy or receivership proceedings or claim of material importance pending or against us to the knowledge of our Directors that would have a material and adverse effect on our results of operations or financial condition.

Non-compliance

Except as disclosed below, we complied with the law and regulations applicable to us in all material respects during the Track Record Period and up to the Latest Practicable Date. The table below sets forth summaries of certain incidents of historical non-compliance with applicable law and regulations during the Track Record Period. Our Directors believe that these incidents of non-compliance, whether individually or collectively, will not have a material operational or financial impact on us.

Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure on-going compliance
Social insurance and housing provident funds				
We did not fully pay and make sufficient contributions to the required standard in respect of the social insurance and the housing provident fund for some of our employees.	Our human resource manager at the relevant time was not familiar with the relevant regulatory requirements.	Under the Social Insurance Law of the PRC* (《中華人民共和國社會保險法》), as a result of not making full contribution to the social insurance, the competent authority shall order the employing entity to make the payment or make up the difference within the stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department shall impose a fine from one to three times the amount of overdue payment. Under the Regulations on the Management of Housing Provident Funds* (《住房公積金管理條例》) of the PRC, as a result of not making full contribution to the housing provident fund, the housing provident fund management center shall order the employing entity to make the payment and deposit within a prescribed time limit; failing which, at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed or an application may be made to a People's Court for compulsory enforcement. (collectively the "National Laws")	We have commenced to make social insurance and housing provident fund contributions for all of our employees in accordance with the required standards since January 2015. Up to the Latest Practicable Date, (i) we have not received any request for making up the estimated outstanding contribution nor we have been imposed any punishment as a result of such non-payment; (ii) the authorities in charge of the social insurance and the housing fund have confirmed that currently we did not fail to pay the social insurance and the housing provident fund. We have made provisions in respect of the unpaid social insurance and housing provident fund in the aggregate amount of approximately RMB990,000, RMB1,373,000 and RMB2,045,000, respectively, for the years ended 31 December 2012, 2013 and 2014 in accordance to the National Laws. We believe such amount is sufficient to cover our liabilities in respect of the unpaid housing provident fund and social insurance contributions. In addition, each of our Controlling Shareholders has undertaken to indemnify us against any losses and penalties which we may suffer as a result of the failure of our Group to observe relevant laws, regulations or rules concerning social insurance and housing provident fund contributions. Further, as the relevant local authorities have confirmed that none of our Group companies in the PRC have any outstanding contributions in respect of the social insurance and the housing provident fund in accordance to the local policies and local executive routine, our PRC Legal Advisers have advised that the risks that the relevant authorities would request us to make supplementary payment and impose administrative fines on us are relatively low.	To ensure on-going compliance on social insurance and housing provident fund contributions, dedicated human resource personnel has be assigned to prepare the monthly payroll which consists of the calculation for social insurance and housing provident fund contributions. The human resource manager shall review the payroll on a monthly basis and submit to the finance manager for checking. The payroll will then be submitted to the general manager for approval. We will regularly review our list of employees who are eligible for social insurance and housing provident fund contributions, and submit the list to the management for approval. We will make social insurance and housing provident fund contributions for all the employees on the list in accordance to the applicable laws and regulations. We will also keep track of the applicable laws and regulations in respect of the social insurance and the housing provident fund amended from time to time in order to make corresponding adjustment to our contribution.

INTERNAL CONTROL AND CORPORATE GOVERNANCE MEASURES

In order to continuously improve our corporate governance and to prevent recurrence of the non-compliance incidents, we intend to adopt or have adopted the following measures:

(i) our Directors and senior management attended training sessions on applicable laws and regulations, including the Listing Rules, provided by our legal advisers prior to Listing. We will continue to arrange various trainings to be provided by the legal advisers engaged by us from time to time and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations;

(ii) we have appointed Mr. To Kwong Yeung as our chief financial officer in January 2015 who will be responsible for financial, internal control and compliance matters of our Group. Mr. To has over 14 years of experience in business management, auditing, accounting and internal control. Mr. To is a member of the Hong Kong Institute of Certified Public Accountants. Our Directors believe that our Company will be able to draw on his expertise and experience with respect to compliance with applicable legal and financial reporting requirements. Please see the section headed "Directors, senior management and staff" of this document for more detailed biographical information of Mr. To;

(iii) we have established an internal control committee. The members of such committee comprise the chief financial officer from time to time of our Group (currently Mr. To Kwong Yeung) and the assistant to the chief executive officer from time to time of our Group (currently Ms. Ng Po Fung) and their responsibilities include, among others, monitoring and implementation of the internal control and compliance matters of our Group and reporting to our Board;

(iv) Our Group has also formed an audit committee comprising four independent non-executive Directors as part of our measures to improve corporate governance. The primary duties of the audit committees are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors. We plan to continue strengthening our risk management policies, by ensuring regular management review of relevant corporate governance measures and the implementation by each subsidiary and the corresponding departments;

(v) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser with effect from the date of Listing.

After considering the above rectification actions recommended by the internal control consultant and all reasonable steps taken by our Group to establish a proper internal control system to present future non-compliance with the relevant laws and regulations, and such non-compliance incidents have not resulted, and are not expected to result, in any material impact on our financial and operational aspects, our Directors are satisfied and the Sole Sponsor concurs that our internal control measures adopted are adequate and effective and consider that the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules.