You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as of and for the years ended 31 December 2012, 2013 and 2014 and the accompanying notes included in the Accountants' Report set out in Appendix I to this document. The consolidated financial statements has been prepared in accordance with HKFRS. You should read the whole of the Accountants' Report set out in Appendix I to this document and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this document.

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].

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set forth in the section headed "Risk Factors" of this document and the following factors, some of which may not be within our control.

Growth of the infrastructure and road construction and maintenance industry and economy in China

We generate a substantial portion of our revenue in the PRC. The percentage of total revenue from the sale of our asphalt mixing plants in the PRC for PRC road construction or maintenance projects for the years ended 31 December 2012, 2013 and 2014, was approximately 78.1%, 77.2% and 85.3%, respectively. Our asphalt mixing plants are mainly used in the road construction and maintenance sector and the development of our business depends on the sustained growth of these sectors in the PRC. There is no assurance that this sector will continue to grow in the future. Factors such as consumer, corporate and government spending, business investment, volatility and strength of the capital markets and inflation in the PRC affect the business and economic environment we are in, and ultimately affect our revenue and profitability. If the PRC economy does not grow at the expected rate or that the government spending for road construction and

(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 asphalt mixing plants 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%.

maintenance work declines, this could lead to less than expected business and construction activity nationwide, or if there have been changes in PRC laws, regulations or policies which lead to a decline in investment on infrastructure, road construction and maintenance, the demand for our products and services may decrease and our business, results of operations and financial condition may be materially and adversely affected.

PRC government policies

The PRC government policies will continue to have an impact on our results of conditions and financial condition. The PRC government may promulgate laws, regulations or policies which may affect our business or investment on infrastructure or road construction and maintenance.

The State Council of the PRC has specifically listed asphalt mixing plants as a development priority in its "Plan on Adjusting and Revitalizing the Equipment Manufacturing Industry"* (《裝備製造業調整和振興規劃》) promulgated in 2009. The development of asphalt pavement recycling technology is also supported by regulations such as the Transportation "Twelfth Five-year" Development Planning* (《交通運輸「十二五」發展規劃》), the Supportive Field of National Major New Product Plan (2013 and 2014 versions)* (《國家重點新品計劃支持領域》(2013年和2014年版)) issued by the Ministry of Science and Technology, and the Guidance on Promoting Road Pavement Material Recycling* (《交通運輸部關於推進公路路面材料循環利用工作的指導意見》) released by the Ministry of Transport (the "**Guideline**").

On 24 December 2011, the PRC Ministry of Commerce amended its 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**") such that effective from 30 January 2012, foreign enterprise operating in the manufacturing of asphalt and concrete mixing and paving equipment now falls within the "Restricted" category even though it was previously categorised under the "Permitted" category. As advised by our PRC legal advisers, as (i) we engaged in the business of manufacturing the Conventional Plants before the Catalogue came into force; (ii) we have obtained the relevant approval from the competent authorities according to the PRC laws and regulations effective at that time; (iii) our business of manufacturing the Conventional Plants has always been within the original scale of the approval and we never expanded our production capacity beyond the approved production quantity, we therefore did not breach the Catalogue during the effective period of the Catalogue (from 30 January 2012 to 9 April 2015). The Catalogue ceased to be effective on 10 April 2015. In March 2015, the PRC Ministry of Commerce revised 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**"), effective from 10 April 2015, provides that foreign enterprise operating in the manufacturing of asphalt and concrete mixing and paving equipment falls within the "Permitted" category. Our PRC Legal Advisers has confirmed in its legal opinion that our current and proposed structure complies with the requirement of the Catalogue and Revised Catalogue.

Our Group is currently focusing in expanding its business in manufacturing of the Recycling Plants, which falls under the "Encouraged" category according to the Catalogue. As advised by our PRC legal advisers and the PRC legal advisers to the Underwriters, according to the reply (serial number FaGaiBan [2012] 2636), issued by the NDRC on 14 September 2012 (the "**Reply Letter**"), the NDRC has confirmed in the Reply Letter that the Recycling Plants falls within the classification of "manufacturing of solid waste disposal equipment", which is qualified as Class 3. Article 18. Item 58. of "Encouraged" category in accordance with the Catalogue. The NDRC is a competent authority to issue relevant confirmation according to the Catalogue. As advised by our PRC legal advisers and the PRC legal advisers to the Underwriters, the manufacturing of solid waste disposal equipment continues to be classified under "Encouraged" category in accordance with the Revised Catalogue.

There is no assurance that there will not be any changes to PRC laws, regulations and policies. If there are changes in PRC laws, regulations or policies which lead to a decline in investment in infrastructure, road construction and maintenance, our business, our results of operations and financial condition will be materially and adversely affected.

Level of competition

The competition in the PRC asphalt mixing plant manufacturing industry is intense. We face competition from domestic and international asphalt mixing plant manufacturers in medium to large scale asphalt mixing plant market. The medium to large scale asphalt mixing plant market is dominated by a small number of domestic and international asphalt mixing plants manufacturers, including us. Some of our competitors in this market, particularly PRC state-owned companies and multinational companies, have better access to financing and better brand recognition and they may have wider sales and distribution network coverage. In the small scale asphalt mixing plant market, there is intense price competition in this market because of the relatively low technical barriers to entry to this market.

In terms of the type of products, as the PRC government has in recent years promoting environment protection and encouraging the use of environmental friendly equipment and products, such as recycled asphalt mixtures, the demand for Recycling Plants is therefore likely to 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 the road construction and maintenance industries.

The increased competition from other asphalt mixing plant manufacturers may create a downward pressure on the selling prices of our products. As such, our business, financial conditions and results of operations may be adversely affected. Moreover, if we fail to keep up with technological advancements, adapt to changing market conditions, maintain product quality, build brand recognition, and provide our products and services at competitive prices, we will not be able to compete successfully against our competitors, and our business, financial condition, prospects and the results of our operations will also be adversely affected.

Research and development

Our focus on research and development enables us to stay competitive and is one of our key strengths. To keep up with our customers' changing needs, and to compete with our competitors, we are required to keep abreast of technological advancements and introduce new products. Our growth prospects are dependent on our ability to improve our existing products or develop new products that meet our customers' needs and changing requirements.

While we strive to focus our research and development efforts on outcomes that will have a direct positive impact on our business, there is no assurance that our research and development efforts will be successful or directly applicable to improve our products, or that our new technology and products will be accepted in the market. Additionally, our ability to introduce newly developed products to the market depends on factors beyond our control, including prevailing economic conditions, changing risk appetites of our customers, ability of our customers to obtain financing for new and potentially more costly products, and changes in industry standards and regulatory requirements for asphalt pavements.

Production capacity

We have faced capacity constraints in recent years as our production facilities have already been operating at maximum capacity and we have to outsource part of our production, including the non-key parts and components to subcontractors, in order to meet the demand for our products. We sold 49, 53 and 59 units of asphalt mixing plants for the years ended 31 December 2012, 2013 and 2014, respectively. Based on the annual production capacity of 50 units of asphalt mixing plants, the annualised utilisation rate of our production facilities approximately 98.0%, 106.0% and 118.0%, respectively. If we are unable to increase our production capacity, we may lose market share as we may lose orders from customers due to not having sufficient production capability. Additionally, we may not be able to achieve the optimum economies of scale in our operations in a manner that allows us to minimize costs and remain competitive in the market. We plan to expand the size of our manufacturing facilities in Langfang with an aim of increasing our production capacity to over 80 units of asphalt mixing plants per year. 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. Please refer to "Business – Business strategies – Expand production capacity to meet demand for our products" for details of our plan to expand our production capacity. We believe that the plan to expand our production capacity would enable us to capture the growth in demand that we anticipate for our products.

Cost of raw materials, parts and components

Our financial condition and results of operations are affected by the cost of raw materials, parts and components for the production of our products. During the Track Record Period, the total cost of raw materials, parts and components accounted for 78.1%, 74.7% and 79.0% of our total cost of sales, respectively. The cost of steel, one of the major raw materials for our products, may be affected by the fluctuations in steel price in both domestic and international commodities markets. During the Track Record Period, we purchased steel directly from our suppliers and we subcontracted the manufacture of many of standardized non-key components (to which steel formed part of) to our subcontractors. We have not experienced material fluctuations in the cost of steel during the Track Record Period.

We have not entered into any long-term agreements with any of our current raw materials, parts and components suppliers and subcontractors, nor have we entered into any hedging arrangements or transactions to reduce our exposure to fluctuations in their costs. If we experience an interruption, reduction or termination in supply of raw materials, parts and components from our suppliers or subcontractors, we may not be able to obtain the supply of raw materials, parts and components needed for the production of our products. Moreover, any increase in the prices of our major raw materials, parts and components could result in additional costs to us and may lead to a reduction in our gross profit margin to the extent that we are unable to pass these increased costs on to our customers. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

Tax

Langfang D&G, our major operating subsidiary, is recognised as a high-technology enterprise under the PRC Enterprise Income Tax ("**EIT**") law by a number of Hebei provincial authorities including the Hebei Department of Science and Technology* (河北省科技廳) and entitled to the preferential EIT rate of 15% 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. We cannot assure you that Langfang D&G will continue to qualify as a high-technology enterprise or that it will always enjoy preferential tax treatment as a high-technology enterprise or that the laws and regulations regarding the preferential tax treatment of high-technology enterprise will not change. Any change in the preferential tax treatment that we currently enjoy will have a negative impact on our financial condition, business and results of operations.

Fluctuations in Exchange Rate

During the Track Record Period, we generated approximately 14.2%, 14.1% and 8.8% of our total revenue from our direct export sales where our overseas customers pay us in foreign currencies. Even though our overseas customers pay us mainly in US dollars or Euros, any depreciation of the local currencies of our overseas customers against US dollars or Euros may result in our overseas customers using more local currency to exchange into the same amount of US dollars or Euros and may result in delay or default of our customers payments to us. During the Track Record Period, our direct export sales to Russian customers accounted for 9.9%, 10.2% and 3.1% of our total revenue, respectively. As at 31 December 2014, none of our trade receivables was from our Russian customers. The recent depreciation of the Russian currency, Ruble, against US dollars and Euros means that our Russian customers would need to use more Ruble to exchange into the same amount of US dollars or Euros to pay us. If our Russian customers do not have sufficient currency to exchange into US dollars or Euros to settle their payment obligations to us, they may delay their payments to us or that they may be in default of their payment obligations to us. In such circumstances, our business, financial condition or results of operations may be adversely affected.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 11 September 2014. In preparation of the Listing, we underwent the Reorganisation, as detailed in the paragraph headed "History, Reorganisation and Corporate Structure – Reorganisation" in this document. As a result of the Reorganisation, our Company became a holding company of the subsidiaries comprising our Group.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with HKFRSs, which requires us to make judgments, estimates and assumptions that affect the application of policies and items reported in our consolidated financial statements. The estimates and associated assumptions are based on historical experience and various other factors that our management believes to be reasonable under the circumstances. The results of these estimates and associated assumptions form the basis of our management's judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Our management reviews these estimates and underlying assumptions on an ongoing basis taking into account the changing environment and circumstances.

For more details, please refer to notes 1 and 2 in section B of the Accountants' Report set forth in Appendix I to this document.

Critical accounting policies

Revenue recognition

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

(i) Sale of goods

This item includes sale of asphalt mixing plants and their spare parts and components.

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

(ii) Services income

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

(iii) Rental income from operating lease

This item includes rental income from operating lease of asphalt mixing plants.

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

(iv) Interest income

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

(v) Government grants

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

Trade and other receivables

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

Impairment of trade and other receivables

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

– significant financial difficulty of the debtor;

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

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

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

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

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

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years. Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When our management is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Inventories

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

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

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

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses.

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

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

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

– Plant and buildings 10-20 years

– Machinery 3-10 years

– Motors vehicles 5 years

– Office equipment and furniture 4-10 years

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

Income tax

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

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

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

Critical accounting judgements in applying the group's accounting policies

In the process of applying our accounting policies, our management has made the following accounting judgements:

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Our management evaluates tax implications of transactions and set up tax provisions accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, our management's judgment is required to assess the probability of future taxable profits. Our management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Impairment of trade receivables

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

(ii) Warranty provisions

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

(iii) Net realisable value of inventories

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

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

SELECTED FINANCIAL STATEMENT INFORMATION

The following table sets forth selected items of our consolidated statements of profit or loss and other comprehensive income for the periods as indicated, as derived from the Accountants' Report in Appendix I to this document.

	Year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	364,339	412,260	444,313
Cost of sales	(214,500)	(238,528)	(260,130)
Gross profit	149,839	173,732	184,183
Other revenue and net income	1,763	5,995	4,686
Distribution costs	(33,281)	(36,254)	(39,084)
Administrative expenses	(46,743)	(53,605)	(46,637)
Profit from operations	71,578	89,868	103,148
Finance costs	(11,422)	(3,714)	(1,808)
Profit before taxation	60,156	86,154	101,340
Income tax	(10,438)	(13,662)	(18,182)
Profit for the year	49,718	72,492	83,158
Profit for the year attributable to:			
Equity shareholders of the company	46,279	60,338	74,326
Non-controlling interests	3,439	12,154	8,832
	49,718	**72,492**	**83,158**

The following table sets forth selected items of our consolidated statements of financial position for the periods as indicated, as derived from the Accountants' Report in Appendix I to this document.

	As at 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	58,534	68,227	64,555
Investment properties	7,838	7,193	–
Lease prepayments	6,937	6,737	5,488
Trade and other receivables	5,322	11,827	23,796
Other non-current assets	4,479	3,691	1,727
Deferred tax assets	2,664	5,961	7,960
	85,774	103,636	103,526
Current assets			
Inventories	94,883	104,365	113,776
Trade and other receivables	162,013	212,698	338,116
Pledged bank deposits	12,188	8,516	6,575
Cash and cash equivalents	62,798	67,407	28,607
	331,882	392,986	487,074
Current liabilities			
Loans and borrowings	39,139	31,836	162,546
Trade and other payables	104,785	111,701	154,205
Income tax payable	547	7,620	6,769
	144,471	151,157	323,520
Net current assets	187,411	241,829	163,554
NET ASSETS	273,185	345,465	267,080

DESCRIPTION OF SELECTED ITEMS OF OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Turnover

We generate our revenue primarily from sale of asphalt mixing plants and, to a lesser extent, from sale of spare parts and components and provision of equipment modification services and operating lease of asphalt mixing plants.

The following table sets forth a breakdown of our turnover by business nature 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*
Sales of asphalt mixing plants	324,393	89.0	350,792	85.1	385,568	86.8
Sales 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

During the Track Record Period, the percentage of revenue from sale of asphalt mixing plants decreased from approximately 89.0% in 2012 to approximately 85.1% in 2013 and remained stable at approximately 86.8% in 2014. The percentage of revenue from sale of spare parts and components and provision of equipment modification services and operating lease of asphalt mixing plants increased from approximately 11.0% in 2012 to approximately 14.9% in 2013 and decreased slightly to approximately 13.2% in 2014. While we expect that sale of asphalt mixing plants will remain to be our largest business by revenue contribution, we seek to increase the percentage of revenue from sale of spare parts and components and provision of equipment modification services as well as the operating lease of asphalt mixing plants to diversify the source of our revenue.

The following table sets forth a breakdown of our revenue by numbers of asphalt mixing plants sold and average selling price of our asphalt mixing plants for the periods indicated:

	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

Our revenue from sale of asphalt mixing plants is affected primarily by the sales volume of our products and, to a lesser extent, by changes in the average selling price of our products. The total number of asphalt mixing plants sold increased from 49 units in 2012 to 53 units in 2013, while our overall average selling price of our products remained stable in 2012 and 2013. The average selling price of 5000 model series Conventional Plants decreased by approximately 18.4% from approximately RMB9.5 million in 2012 to approximately RMB7.7 million in 2013, mainly due to (i) the sale of two 5000 model series Conventional Plants at a relatively lower selling price in 2013 because 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 our 4,000 model series, 3,000 model series and 2,000 model series or below Conventional Plants remained relatively stable in 2012 and 2013.

The average selling price of our 2000 model series or below Recycling Plants decreased by approximately RMB0.4 million or 9.7% from approximately RMB4.4 million in 2012 to approximately RMB4.0 million in 2013, mainly due to the lower selling price of a Recycling Plant to a finance leasing company after setting off its service charge. The average selling price of our 3000 model series and 4000 model series Recycling Plants remained relatively stable in 2012 and 2013.

For the year ended 31 December 2014, the total number of asphalt mixing plants sold increased from 53 units in 2013 to 59 units in 2014, while our overall average selling price of our products remained relatively stable. The increase in units sold was driven mainly by a significant increase in the units of each of our model series Recycling Plants from 12 units in 2013 to 29 units in 2014 in total offset by a decrease in the units of Conventional Plants sold from 41 units in 2013 to 30 units in 2014, mainly due to a decrease in the number of units sold from 4000 model series or below Conventional Plants. Such change in product mix is due to our business strategy to promote the sale of our Recycling Plants.

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 generated 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.

During the Track Record Period, the revenue from sale of Conventional Plants accounted for approximately 83.7%, 74.2% and 51.5% of our total revenue from sale of asphalt mixing plants in 2012, 2013 and 2014, respectively. The revenue from sale of Recycling Plants increased significantly from approximately 16.3% in 2012 to approximately 25.8% in 2013 and to approximately 48.5% in 2014 of total revenue from sale of asphalt mixing plants. We believe that this was due to an increase in demand for our Recycling Plants as a result of PRC government policies encouraging the use of environmental friendly products and increased market awareness of Recycling Plants as well as our marketing efforts to promote the sale of our Recycling Plants.

In terms of products, we focus on sale of medium to large scale asphalt mixing plants. Our revenue generated from sale of medium to large scale asphalt mixing plants, accounted for approximately 84.0%, 85.1% and 91.2% of our revenue from sale of asphalt mixing plants in 2012, 2013 and 2014, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin from sale of asphalt mixing plants by domestic sales and indirect export within China and direct export outside China for the periods indicated:

	Year ended 31 December					
	2012		2013		2014	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
China						
– Domestic	253,343	78.1	270,623	77.2	328,846	85.3
– Indirect export	20,970	6.5	29,257	8.3	19,329	5.0
	274,313	84.6	299,880	85.5	348,175	90.3
Outside China						
– Direct export	50,080	15.4	50,912	14.5	37,393	9.7
Total:	324,393	100.0	350,792	100.0	385,568	100.0

During the Track Record Period, our revenue generated from customers which are based in China accounted for approximately 84.6%, 85.5% and 90.3% of our revenue from sale of asphalt mixing plants, respectively. Amongst the sale to customers in China, approximately 6.5%, 8.3% and 5.0% of revenue from sales of asphalt mixing plants in 2012, 2013 and 2014 respectively, was generated from indirect export sales from sales to customers in China for their overseas projects. During the Track Record Period, we delivered our products mainly to countries in Africa in our indirect export sales.

We also sell our products directly to our customers outside China. During the Track Record Period, we exported our products directly to countries such as Russia, India, Mongolia and Australia. Our revenue from direct export sales of asphalt mixing plants accounted for approximately 15.4%, 14.5% and 9.7% of our total revenue from sale of asphalt mixing plants in 2012, 2013 and 2014, respectively. The decrease in the percentage of our revenue from our direct export sales in 2014 was mainly due to the decrease in number and average selling price of units of asphalt mixing plants sold to Russia. We intend to gradually increase our direct and indirect export sales. For details of our overseas expansion plans, please refer to the paragraph headed "Business – Business Strategies – Expand our sales network within the PRC and globally".

Cost of sales

The following table sets forth a breakdown of our cost of sales by business for the periods indicated:

	Year ended 31 December					
	2012		**2013**		**2014**	
	RMB'000	*% of cost of sales*	*RMB'000*	*% of cost of sales*	*RMB'000*	*% of cost of sales*
Sale of asphalt mixing plants	194,958	90.9	210,197	88.2	235,477	90.5
Sale of spare parts and components and provision of equipment modification services	17,448	8.1	24,783	10.3	18,793	7.2
Operating lease of asphalt mixing plants	2,094	1.0	3,548	1.5	5,860	2.3
	214,500	100.0	238,528	100.0	260,130	100.0

Sales of asphalt mixing plant

Our cost of sales with respect to sale of asphalt mixing plants includes raw materials, parts and components such as steel, electrical components, gear motors and burners, direct labour costs and other production overheads.

The cost of raw materials, parts and components with respect to sale of asphalt mixing plants accounted for approximately 78.1%, 74.7% and 79.0% of our cost of sale during the Track Record Period, respectively. The increase in the cost of raw materials, parts and components during the Track Record Period was primary due to the increase in sale of our asphalt mixing plants.

The prices and availability of raw materials, parts and components may vary from period to period due to factors such as customer demand and market conditions. As such, we are exposed to market risk of price fluctuation, which may cause fluctuation in our cost of sales. Any increase in our principal raw materials may adversely affect our gross profit margin if we are unable to pass on the increased costs to our customers.

One of our major raw materials, parts and components are steel and steel related products. Our suppliers may control their costs against changes in the price of raw materials, parts and components. When the price of raw materials, parts and components declines, the reduction in cost may not be passed onto end customers like us. Therefore, despite the decline in steel prices during the Track Record Period, our costs of raw materials, parts and components may not have been materially affected.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of raw materials, parts and component on our profit before tax during the Track Record Period. Fluctuation in our cost of materials, parts and component are assumed to be 5% and 10%.

Hypothetical fluctuations	**+/-5%**	**+/-10%**
	RMB'000	*RMB'000*
Decrease/increase in profit before income tax		
Year ended 31 December 2012	-/+8,379	-/+16,759
Year ended 31 December 2013	-/+8,905	-/+17,810
Year ended 31 December 2014	-/+10,275	-/+20,550

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

Our cost of sales with respect to sale of spare parts and components and provision of equipment modification services mainly include cost of spare parts and components of our asphalt mixing plants. It accounted for approximately 8.1%, 10.3% and 7.2% of our total cost of sales during the Track Record Period, respectively. It increased by approximately RMB7.4 million or 42.0% from approximately RMB17.4 million in 2012 to approximately RMB24.8 million in 2013 and decreased by approximately RMB6.0 million or 24.2% to approximately RMB18.8 million in 2014, which was in line with the increase or decrease of sale of spare parts and components.

Operating lease of asphalt mixing plants

Our cost of sales with respect to operating lease of asphalt mixing plants mainly include depreciation of the asphalt mixing plants that we lease to our customers, costs of installation and repair costs. It accounted for approximately 1.0%, 1.5% and 2.3% of our total cost of sales during the Track Record Period, respectively.

Gross profit and gross profit margin

The following table sets forth the gross profit and gross profit margin of our products for the periods indicated:

	Year ended 31 December					
	2012		2013		2014	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
Sale of asphalt mixing plants						
Conventional Plants						
5000 model series	23,714	41.6	9,237	39.8	28,788	42.1
4000 model series	42,832	39.1	46,765	39.8	30,758	39.8
3000 model series	26,154	39.4	27,382	38.6	12,031	33.4
2000 model series or below	14,363	37.2	19,095	39.5	4,063	24.3
Sub-total	107,063	39.4	102,479	39.4	75,640	38.1
Recycling Plants						
4000 model series	6,158	39.0	26,822	42.9	44,088	41.9
3000 model series	10,882	45.5	10,148	42.1	24,623	38.2
2000 model series or below	5,331	40.4	1,147	28.9	5,740	33.0
	22,371	42.3	38,117	42.1	74,451	39.8
Sub-total	129,434	39.9	140,596	40.1	150,091	38.9
Sale of spare parts and components and provision of equipment modification services	9,956	36.3	19,454	44.0	15,219	44.7
Operating lease of asphalt mixing plants	10,449	83.3	13,682	79.4	18,873	76.3
Total	149,839	41.1	173,732	42.1	184,183	41.5

During the Track Record Period, we had not sold any asphalt mixing plant at a loss.

The gross profit from sale of asphalt mixing plants increased by approximately RMB11.2 million or 8.6% from approximately RMB129.4 million in 2012 to approximately RMB140.6 million in 2013 and increased by approximately RMB9.5 million or 6.8% from approximately RMB140.6 million in 2013 to approximately RMB150.1 million in 2014, generally due to the increase in sales volume of asphalt mixing plants. The change in our gross profit margin from the sale of asphalt mixing plants are, to a large extent, due to the change in the sales price of our asphalt mixing plants, as our cost of sales of the asphalt mixing plants has been relatively stable during the Track Record Period. The sales price of each asphalt mixing plant may vary depending on a number of factors such as whether certain parts of the asphalt mixing plants are provided by the customers and whether the location of the road construction projects is in a region one where we would like to promote our sales. Please refer to the section headed "– Turnover" of this section for details on the changes in the average selling price of our asphalt mixing plants. Overall, the gross profit margin from sale of asphalt mixing plants remained relatively stable at approximately 39.9%, 40.1% and 38.9% in 2012, 2013 and 2014, respectively.

The gross profit from sale of Conventional Plants remained stable at approximately RMB107.1 million and RMB102.5 million in 2012 and 2013, respectively. The gross profit from sale of Conventional Plant decreased by approximately RMB26.8 million or 26.2%, from approximately RMB102.5 million in 2013 to approximately RMB75.6 million in 2014, generally due to the change in sales volume of Conventional Plants from 41 units in 2013 to 30 units in 2014. The gross profit margin from sale of Conventional Plants remained stable at approximately 39.4%, 39.4% and 38.1% in 2012, 2013 and 2014. The gross profit margin of our 3000 model series Conventional Plants decreased from approximately 38.6% in 2013 to approximately 33.4% in 2014, mainly due to the decrease in the average selling price of our 3000 model series Conventional Plants by approximately 7.0%, which was in turn 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 gross profit margin of our 2000 model series or below Conventional Plants decreased from approximately 39.5% in 2013 to approximately 24.3% in 2014, mainly due to the decrease in the average selling price of our 2000 model series or below Conventional Plants by approximately 24.1%, which was in turn 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 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 Conventional 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 gross profit from sale of Recycling Plants increased by approximately RMB15.7 million or 70.4%, from approximately RMB22.4 million in 2012 to approximately RMB38.1 million in 2013, generally due to the increase in sales volume of Recycling Plants from 8 units in 2012 to 12 units in 2013. The gross profit margin from sale of Recycling Plants remained stable at approximately 42.3% and 42.1% in 2012 and 2013, respectively. The gross profit margin of our 2000 model series or below Recycling Plants decreased from approximately 40.4% in 2013 to approximately 28.9% in 2014, mainly due to the decrease in the average selling price of our 2000 model series or below Recycling Plants by approximately 9.7%, which was in turn mainly due to the lower selling price of a recycling Plant to a finance leasing company after netting off its service charge. The gross profit from sale of Recycling Plants increased by approximately RMB36.4 million or 95.3%, from approximately RMB38.1 million in 2013 to approximately RMB74.5 million in 2014, generally due to the increase in sales volume of Recycling Plants from 12 units in

2013 to 29 units in 2014 due to our business strategy to promote the sale of our Recycling Plant. The gross profit margin from sale of Recycling Plants decreased slightly to approximately 39.8% 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. This is also reflected in the decrease in the gross profit margin of 3000 model series Recycling Plants from approximately 42.1% in 2013 to approximately 38.2% in 2014.

The gross profit margin of sale of spare parts and components and provision of equipment modification services increased from approximately 36.3% in 2012 to 44.0% in 2013, mainly due to an increase in sale of spare parts and components overseas with higher gross profit margin. The gross profit margin of sale of spare parts and components and provision of equipment modification services remained stable at approximately 44.7% in 2014.

The gross profit margin of operating lease of asphalt mixing plants is generally higher than that of our other businesses as the cost of sales of our leasing business is much lower than that of other businesses. The gross profit margin of operating lease of asphalt mixing plants decreased from approximately 83.3% in 2012 to approximately 79.4% in 2013, mainly due to the longer idle time of actual production for those asphalt mixing plants with higher rental per tonne in 2013. The gross profit margin of operating lease of asphalt mixing plants decreased from approximately 79.4% in 2013 to approximately 76.3% in 2014, mainly due to the longer idle time of actual production for those asphalt mixing plants with higher rental per tonne in 2014.

Other revenue and net income

Our other revenue and net income mainly includes interest income, net income from rental income from our leasing of property and government grants. The increase in our other revenue and net income in 2013 of approximately RMB4.2 million was mainly due to the receipt of an one-off government grants of RMB3.0 million from Langfang municipal government in support of our listing plan. There were no unfulfilled conditions and other contingencies attached to this government grant.

The following table sets forth a breakdown of our other revenue and net income for the periods indicated:

	Year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Other revenue:			
Interest income[1]	539	813	824
Government grants	731	3,674	453
	1,270	4,487	1,277
Other net income:			
Rental income from investment properties, net of direct operating expenses	1,226	1,281	1,372
Net (loss)/gain on disposal of property, plant and equipment and other non-current assets	(804)	(13)	2,133
Others	71	240	(96)
	493	1,508	3,409
	1,763	5,995	4,686

Note:

1. Interest income includes bank interest income and deemed interest income arising from instalment payments from the customers for our asphalt mixing plants with terms of more than one year.

Distribution costs

Our distribution costs mainly include costs that are associated with the sale and distribution of our products, including staff costs of our sales and marketing staff, distribution fees to our distributors which act as sales agents, freight and postage expenses incurred mainly for the delivery of our products, office supplies, travelling expenses and warranties.

The following table sets forth a breakdown of our distribution costs for the periods indicated:

	Year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Staff costs	7,442	11,091	11,595
Distribution fees	9,345	7,018	10,721
Freight, transportation and postage	8,058	8,967	7,773
Marketing	3,519	2,750	3,011
Travelling	2,598	3,044	2,958
Warranties	928	1,725	1,487
Office supplies	560	612	601
Rental expense	446	663	711
Depreciation	19	8	10
Others	366	376	217
	33,281	36,254	39,084

Administrative expenses

Our administrative expenses mainly include staff costs of our staff (other than sales and marketing staff), research and development expenses, professional fees, provision for bad debts, depreciation and amortisation, travelling and transportation expenses, entertainment and office supplies.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Staff costs	13,803	14,530	16,674
Research and development	13,432	13,924	8,794
Professional fees	3,389	3,791	6,281
Provisions for bad debts	4,531	10,565	4,765
Depreciation and amortisation	1,924	2,018	1,959
Travelling and transportation	2,361	2,190	1,919
Entertainment	1,531	789	382
Office supplies	2,488	3,467	2,360
Other taxes	985	963	1,020
Rental expense	460	426	385
Others	1,839	942	2,098
	46,743	53,605	46,637

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.

Finance costs

Our finance costs mainly includes interest on loans and borrowings and interest to our investors on their redeemable shares.

The following table sets forth a breakdown of our finance costs for the periods indicated:

	Year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Interest on loans and borrowings wholly repayable within 5 years	3,526	2,471	1,716
Interest on redeemable shares	7,157	–	–
Discounted bills interest	–	683	12
Net foreign exchange loss	739	560	80
Total finance costs	11,422	3,714	1,808

Income tax

Our Company was incorporated in the Cayman Islands and some of other members of our Group were incorporated in the British Virgin Islands. Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, we are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong profits tax was made for the subsidiaries located in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2012, 2013 and 2014. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

As at 31 December 2014, we had two subsidiaries in the PRC, Langfang D&G and Tianjin D&G, with Langfang D&G being our major operating subsidiary. During the Track Record Period, we had another subsidiary in the PRC, Beijing D&G. As part of the Reorganisation, Beijing D&G ceased to be a subsidiary of our Group on 4 December 2014. Langfang D& G and Beijing D&G had been awarded as a "high-technology enterprise" in 2011 and 2010, respectively. According to the EIT Law and its relevant regulations, entities that are high-technology enterprises are entitled to a preferential income tax rate of 15%. Accordingly, Langfang D&G and Beijing D&G are entitled to preferential income tax at 15% for the years from 2011 to 2013 and 2010 to 2012, respectively. 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. Beijing D&G's status as "high-technology enterprise" was renewed in 2013 and it is entitled to the preferential income tax rate at 15% for the years from 2013 to 2015. Tianjin D&G is subject to the PRC Corporate Income Tax rate of 25%.

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

The following table sets forth a breakdown of income tax for the periods indicated:

	Year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current tax:			
Provision for PRC income tax for the year	12,146	16,959	20,078
Under-provision in prior year	74	–	103
Deferred tax:			
Origination and reversal of temporary differences	(1,782)	(3,297)	(1,999)
	10,438	13,662	18,182

The following table sets forth the income tax expense that can be reconciled to profit before tax for the periods indicated:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	60,156	86,154	101,340
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	15,467	21,846	27,175
Tax effect of preferential tax rate	(6,439)	(8,047)	(9,552)
Tax effect of non-deductible expenses	2,143	904	1,116
Additional deduction for qualified research and development expenses	(807)	(1,041)	(660)
Under-provision in prior year	74	–	103
Income tax	10,438	13,662	18,182

The effective tax rate for the year ended 31 December 2012, 2013 and 2014 was 17.4%, 15.9% and 17.9%, respectively.

As at 31 December 2014, we had fully paid or made full provisions for paying all relevant taxes and there had been no material disputes or unresolved tax issues between the relevant tax authorities and us.

RESULTS OF OPERATIONS

Year ended 31 December 2014 compared to the year ended 31 December 2013

Turnover

Our revenue increased by approximately RMB32.1 million or 7.8% from approximately RMB412.3 million in 2013 to approximately RMB444.3 million in 2014, due to an increase in our revenue from the sale of our asphalt mixing plants and the operating lease of our asphalt mixing plants, partially offset by the decrease in the sale of spare parts and components and the provision of equipment modification services.

(i) Sales of asphalt mixing plants

Our revenue from sale of asphalt mixing plants increased by approximately RMB34.8 million or 9.9% from approximately RMB350.8 million in 2013 to approximately RMB385.6 million in 2014, mainly due to a significant increase in the revenue of our Recycling Plants of approximately RMB96.6 million, which was partially offset by a decrease in the revenue of our Conventional Plants in 2014 of approximately RMB61.8 million.

We have recorded a significant increase in our revenue from sale of Recycling Plants by approximately RMB96.6 million or 106.6% from approximately RMB90.6 million in 2013 to approximately RMB187.1 million in 2014, mainly due to a significant increase in the number of Recycling Plants sold from 12 units in 2013 to 29 units in 2014. This was mainly due to an increase in each of 2000 model series or below, 3000 model series and 4000 model series Recycling Plants as a result of our marketing efforts to promote the sale of our Recycling Plants. 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.

As we sought to promote the sale of Recycling Plants, our revenue from sale of Conventional Plants decreased significantly by approximately RMB61.8 million or 23.8% from approximately RMB260.2 million in 2013 to approximately RMB198.4 million in 2014, mainly due to a decrease in the number of 2000 model series or below to 4000 model series Conventional Plants sold from a total of 38 units in 2013 to 22 units in 2014, which was partially offset by an increase in the number of 5000 model series Conventional Plants sold from 3 units in 2013 to 8 units in 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 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. 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 customers as we believed that this customer might be able to refer potential customers to us.

(ii) Sales of spare parts and components and provision of equipment modification services

Our revenue from sale of spare parts and components and provision of equipment modification services decreased by approximately RMB10.2 million or 23.1% from approximately RMB44.2 million in 2013 to approximately RMB34.0 million in 2014, mainly due to the increased demand for our spare parts in 2013.

(iii) Operating lease of our asphalt mixing plants

Our revenue from operating lease of asphalt mixing plants and others increased by approximately RMB7.5 million or 43.5% from approximately RMB17.2 million in 2013 to approximately RMB24.7 million in 2014, mainly due to an increase in the number of units leased to our customers from 4 units in 2013 to 5 units in 2014 and an increase in rental income as a result of an increase in the volume of asphalt mixtures produced by the plants that we leased to our customers.

Cost of sales

Our cost of sales increased by approximately RMB21.6 million or 9.1% from approximately RMB238.5 million in 2013 to approximately RMB260.1 million in 2014, generally in line with the increase in our revenue. The increase in our cost of sales in 2014 was mainly due to an increase in our cost of sales with respect to sale of asphalt mixing plants, which was in turn mainly due to an increase in our costs on materials, parts and components. Our costs on materials, parts and components increased by approximately RMB27.4 million or 15.4% from approximately RMB178.1 million in 2013 to approximately RMB205.5 million in 2014, mainly due to the increase in sales volume of asphalt mixing plants.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately RMB10.5 million or 6.0% from approximately RMB173.7 million in 2013 to approximately RMB184.2 million in 2014.

Our overall gross profit margin from the sale of asphalt mixing plants remained stable at approximately 40.1% and 38.9% in 2013 and 2014, respectively. The gross profit margin from the sale of Conventional Plants remained stable at approximately 39.4% and 38.1% in 2013 and 2014, respectively. The gross profit margin from the sale of Recycling Plants remained stable at approximately 42.1% and 39.8% in 2013 and 2014, respectively.

Other revenue and net income

Our other revenue and net income decreased by approximately RMB1.3 million or 21.8% from approximately RMB6.0 million in 2013 to approximately RMB4.7 million in 2014, mainly due to a decrease in other revenue in 2014 mainly as a result of an one-off government grants of approximately RMB3.0 million that we received from Langfang municipal government in 2013 in support of our listing plan and an increase in other net revenue mainly as a result of the net gain on disposal of property, plant and equipment and other non-current assets in connection with our disposal of the equity interests of Beijing D&G and reacquisition from Beijing D&G the assets and liabilities (except for the real properties and certain assets) in 2014 as part of our Reorganisation. For details about the exclusion of, and the acquisition of assets and liabilities from, Beijing D&G, please refer to the paragraph headed "History, Reorganisation and Corporate Structure – Reorganisation – 5. Acquisition of equity interests in Langfang D&G by BW Enterprise and reorganisation of the PRC operating companies – Sale of equity interests in Beijing D&G and acquisition of assets by Langfang D&G" in this document.

Distribution costs

Our distribution costs increased by approximately RMB2.8 million or 7.8% from approximately RMB36.3 million in 2013 to approximately RMB39.1 million in 2014, mainly due to the combination of an increase in distribution fees by approximately RMB3.7 million as more sales were conducted through distributors; and a decrease in the freight, transportation and postage expenses for the delivery of our products by approximately RMB1.2 million, mainly due to the decrease in the number of units of asphalt mixing plants that we were responsible for delivery in 2014.

Administrative expenses

Our administrative expenses decreased by RMB7.0 million or 13.0% from approximately RMB53.6 million in 2013 to approximately RMB46.6 million in 2014, mainly due to a combination of an increase in staff costs by approximately RMB2.1 million as an increase in wages of our staff, a decrease in research and development expenses by approximately RMB5.1 million, which was in turn mainly due to the capitalisation of some of our research and development expenses for the development of our Monoblock Recycling Plant, and an increase in professional fees by approximately RMB2.5 million, mainly due to professional fees incurred for our Listing, and a decrease in the provision of bad debts by approximately RMB5.8 million.

Finance costs

Our finance costs decreased by approximately RMB1.9 million or 51.3% from approximately RMB3.7 million in 2013 to approximately RMB1.8 million in 2014, mainly due to a decrease in the amount of interest on loans and borrowings wholly repayable within five years by approximately RMB0.8 million.

Profit before taxation

As a result of the foregoing, our profit before taxation increased by approximately RMB15.2 million or 17.6% from approximately RMB86.2 million in 2013 to approximately RMB101.3 million in 2014.

Income tax

Our income tax increased by approximately RMB4.5 million or 33.1% from approximately RMB13.7 million in 2013 to approximately RMB18.2 million in 2014, mainly due to an increase in our profit before taxation in 2014.

Profit for the year

Our profit for the year increased by approximately RMB10.7 million or 14.7% from approximately RMB72.5 million in 2013 to approximately RMB83.2 million in 2014, as a result of the cumulative effects of the factors described above. Our net profit margin increased from approximately 17.6% in 2013 to approximately 18.7% in 2014, mainly due to the decrease in administrative expenses and finance costs in 2014.

Year ended 31 December 2013 compared to the year ended 31 December 2012

Turnover

Our revenue increased by approximately RMB48.0 million or 13.2% from approximately RMB364.3 million in 2012 to approximately RMB412.3 million in 2013, due to an increase in our revenue from each of our three main lines of business in 2013, namely, sale of our asphalt mixing plants, sale of spare parts and components and provision of equipment modification services, and the operating lease of our asphalt mixing plants.

(i) Sales of asphalt mixing plants

Our revenue from sale of asphalt mixing plants increased by approximately RMB26.4 million or 8.1% from approximately RMB324.4 million in 2012 to approximately RMB350.8 million in 2013, mainly due to a significant increase in the revenue of our Recycling Plants in 2013 of approximately RMB37.7 million, which was partially offset by a slight decrease in the revenue of our Conventional Plants of approximately RMB11.3 million.

We have recorded a significant increase in our revenue from sale of Recycling Plants by approximately RMB37.7 million or 71.2% from approximately RMB52.9 million in 2012 to approximately RMB90.6 million in 2013, mainly due to a significant increase in the number of Recycling Plants sold in 2013 from 8 units in 2012 to 12 units in 2013. This was mainly due to the combination of an increase in the number of 4000 model series Recycling Plants sold from 2 units in 2012 to 8 units in 2013 as a result of our marketing efforts to promote the sale of our Recycling Plants, which was partially offset by a decrease in the number of 2000 model series or below Recycling Plants sold from 3 units in 2012 to 1 unit in 2013. The average selling price of our 2000 model series or below Recycling Plants decreased by approximately RMB0.4 million or 9.7% from approximately RMB4.4 million in 2012 to approximately RMB4.0 million in 2013, mainly due to the lower selling price of a Recycling Plant to a finance leasing company after netting off its service charge. The average selling price of our 3000 model series and 4000 model series Recycling Plants remained stable in 2012 and 2013.

We have recorded a slight decrease in our revenue from the sale of Conventional Plants by approximately RMB11.3 million or 4.2% from approximately RMB271.5 million in 2012 to approximately RMB260.2 million in 2013, mainly due to a decrease in the number of 5000 model series Conventional Plants sold from 6 units in 2012 to 3 units in 2013, and a decrease in the average selling price of 5000 model series Conventional Plants by approximately RMB1.8 million or 18.4% from approximately RMB9.5 million in 2012 to approximately RMB7.7 million in 2013. This was in turn mainly due to the 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 per unit of our 2000 model series or below Conventional Plants increased by approximately RMB0.5 million or 14.0% from approximately RMB3.9 million to approximately RMB4.4 million in 2013, mainly due to the lower selling price of some of our Conventional Plants in 2012 because our customers supplied certain non-key parts and components of the plants to us. The average selling price of our 3000 and 4000 model series Conventional Plants remained stable in 2013.

(ii) Sale of spare parts and components and provision of equipment modification services

Our revenue from sale of spare parts and components and provision of equipment modification services increased by approximately RMB16.8 million or 61.4% from approximately RMB27.4 million in 2012 to approximately RMB44.2 million in 2013, mainly due to an increase in demand for our spare parts and components and modification services in 2013.

(iii) Operating lease of asphalt mixing plants

Our revenue from operating lease of asphalt mixing plants increased by approximately RMB4.7 million or 37.4% from approximately RMB12.5 million in 2012 to approximately RMB17.2 million in 2013, mainly due to an increase in the number of units leased to our customers from 3 units in 2012 to 4 units in 2013 and an increase in rental income as a result of an increase in the volume of asphalt mixtures produced by the plants that we leased to our customers.

Cost of sales

Our cost of sales increased by approximately RMB24.0 million or 11.2% from approximately RMB214.5 million in 2012 to approximately RMB238.5 million in 2013, generally in line with the increase in our revenue.

The increase in our cost of sales in 2013 was mainly due to an increase in our cost of sales with respect to sale of asphalt mixing plants, which was in turn mainly due to an increase in our costs on raw materials, parts and components. Our costs on raw materials, parts and components increased by approximately RMB10.5 million or 6.3% from approximately RMB167.6 million in 2012 to approximately RMB178.1 million in 2013, generally due to the increase in sales volume of asphalt mixing plants.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately RMB23.9 million or 15.9% from approximately RMB149.8 million in 2012 to approximately RMB173.7 million in 2013.

Our overall gross profit margin from the sale of asphalt mixing plants remained stable at approximately 39.9% and 40.1% in 2012 and 2013. The gross profit margin from the sale of Conventional Plants remained stable at approximately 39.4% in 2012 and 2013. The gross profit margin from the sale of Recycling Plants remained stable at approximately 42.3% and 42.1% in 2012 and 2013, respectively.

Other revenue and net income

Our other revenue and net income increased by approximately RMB4.2 million or 240.0% from approximately RMB1.8 million in 2012 to approximately RMB6.0 million in 2013, mainly due to an one-off government grants of approximately RMB3.0 million that we received from Langfang municipal government in 2013 in support of our listing plan.

Distribution costs

Our distribution costs increased by approximately RMB3.0 million or 8.9% from approximately RMB33.3 million in 2012 to approximately RMB36.3 million in 2013, mainly due to the combination of an increase in the staff costs of our sales and marketing staff by approximately RMB3.6 million due to a combination of an increase in the number of our sales and marketing staff as well as a wage increase to our sales and marketing staff in 2013, an increase in the freight, transportation and postage expenses for the delivery of our products by approximately RMB0.9 million, and a decrease in payment of distribution fees to our distributors acting as sales agents by approximately RMB2.3 million as more direct sales were conducted in 2013.

Administrative expenses

Our administrative expenses increased by RMB6.9 million or 14.7% from approximately RMB46.7 million in 2012 to approximately RMB53.6 million in 2013, mainly due to an increase in provision for bad debts of approximately RMB6.0 million in 2013. This was mainly due to our evaluation of bad debt risk in response to the extent of delay in settlement of government funding for the PRC road construction or maintenance projects that some of our customers participated in and therefore some of the customers delayed their payments to us. Nonetheless, no bad debts were incurred for these customers.

Finance costs

Our finance costs decreased by approximately RMB7.7 million or 67.5% from approximately RMB11.4 million in 2012 to approximately RMB3.7 million in 2013, mainly due to the reclassification of redeemable shares from financial liabilities to equity in October 2012 as a result of the cancellation of put options to certain non-controlling equity holders of Langfang D&G (i.e. PRC PE Investors) on 9 October 2012. Please refer to note 22 in Section B of the Accountants' Report in the Appendix I to this document for details.

Profit before taxation

As a result of the foregoing, our profit before taxation increased by approximately RMB26.0 million or 43.2% from approximately RMB60.2 million in 2012 to approximately RMB86.2 million in 2013.

Income tax

Our income tax increased by approximately RMB3.3 million or 30.9% from approximately RMB10.4 million in 2012 to approximately RMB13.7 million in 2013, mainly due to a combination of an increase in our profit before taxation and a decrease in non-deductible expense in 2013.

Profit for the year

Our profit for the year increased by approximately RMB22.8 million or 45.8% from approximately RMB49.7 million in 2012 to approximately RMB72.5 million in 2013, as a result of the cumulative effects of the factors described above. Our net profit margin increased from approximately 13.6% in 2012 to approximately 17.6% in 2013, mainly due to an increase in our gross profit margin and the decrease in finance costs in 2013.

DISCUSSION OF KEY ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

Our inventories include raw materials, work in progress, finished goods as well as outsourcing materials. We had inventories of approximately RMB94.9 million, RMB104.4 million and RMB113.8 million as at 31 December 2012, 2013 and 2014, respectively.

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 actively monitor the level of raw materials, parts and components that we keep in stock based on the demand set by our production plans. We generally place purchase orders for imported raw materials, parts and components approximately four 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.

The following table sets forth a summary of the balance of our inventories as at the dates indicated:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	34,058	27,782	42,624
Work in progress	42,476	59,606	51,813
Finished goods	16,349	14,776	15,382
Outsourcing materials	2,000	2,201	3,957
Total:	94,883	104,365	113,776

Our inventories increased by approximately RMB9.5 million or 10.0% from approximately RMB94.9 million as at 31 December 2012 to approximately RMB104.4 million as at 31 December 2013, mainly as a result of the combination of a decrease in raw materials by approximately RMB6.3 million as at 31 December 2013 and an increase in work-in-progress by approximately RMB17.1 million as at 31 December 2013, mainly due to the increased production near the end of 2013 in anticipation of an increase in sales in the first quarter of 2014, compared to those in the first quarter of 2013.

Our inventories increased by approximately RMB9.4 million or 9.0% from approximately RMB104.4 million as at 31 December 2013 to RMB113.8 million as at 31 December 2014, mainly due to an increase in raw materials by approximately RMB14.8 million, which was in turn due to an increase in purchase of raw materials, parts and components and work in progress to meet the expected increase in demand for our products in January and February 2015 as the Chinese New Year holiday in the PRC will be in late February in 2015 as compared with that was in early February in 2014.

Approximately 30.6% of our inventories as at 31 December 2014 were subsequently utilised/sold as at 31 March 2015.

The following table sets forth our average inventory turnover days for the periods indicated:

	At 31 December		
	2012	**2013**	**2014**
Average inventories turnover days *(Note)*	155	152	153

Note: Average inventory turnover days are calculated by averaging the inventories balance as at the beginning and as at the end of a particular period, dividing such average by cost of sales during the period and multiplying the number of days in the period.

Our inventory turnover days has been stable between 152 and 155 days in the Track Record Period, reflecting the stable turnover time of our inventory.

Trade and other receivables

Our trade and other receivables comprise primarily trade receivables due within one year, bills receivables, prepayments, other receivables and deposits and amounts due from related parties.

The following table sets forth a summary of the balance of our trade and other receivables as at the dates indicated:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	135,945	216,800	329,248
Less: unrecognised interest income	(404)	(960)	(1,144)
	135,541	215,840	328,104
Less: provision for impairment	(4,733)	(15,122)	(19,887)
	130,808	200,718	308,217
Less: trade receivable due after one year	(5,322)	(11,827)	(23,796)
	125,486	188,891	284,421
Bills receivables	10,289	4,507	4,803
Total trade receivables	135,775	193,398	289,224
Prepayments to suppliers	14,277	11,101	22,849
Other receivables and deposits	5,574	2,123	6,690
	155,626	206,622	318,763
Amounts due from related parties	6,387	6,076	19,353
Trade and other receivables, net	162,013	212,698	338,116

Trade receivables

Our trade receivables primarily comprise of amount due from our customers from the sale of asphalt mixing plants, sale of spare parts and components of asphalt mixing plants and provision of equipment modification services as well as the income from operating lease of asphalt mixing plants. We may accept from our customers bank acceptance notes of up to 180 days for the settlement of their payment obligations. These notes will be recorded as bills receivables and are included as part of our trade receivables. Please refer to the paragraph headed "Bills receivables" in this section for details of our bills receivables.

As part of our ongoing credit control procedures, our management monitors the creditworthiness of customers which 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.

We do not have a standard credit terms for our customers and we usually negotiate the terms with our customers on case by case basis. Our credit terms for the sale of asphalt mixing plants vary depending on the type of customers as follows:

Sales to direct customers	We may or may not request for deposits from our customers and we usually require our customers to pay up to 50% of 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 direct customers will retain 5% to 10% of the contract sum as retention money, which will be paid to us after deducting any warranty claims, if any, upon expiring of the warranty period. For overseas customers, we may require payment by letter of credit. The warranty period is 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. We offer a longer warranty period of 18 to 24 months to overseas customers or customers with overseas projects.

Sales to the distributor	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. The distributor will typically retain 10% to 20% of the contract sum as retention money, which will be paid upon expiring of the warranty period.
Sales to finance leasing companies	The end-users are required to pay a deposit within a range of 20% to 40% within three days of signing of the tripartite sales contract between the finance leasing company, the end-user and us. The finance leasing company is required to pay the remaining sum by way of bank-transfer and telegraphic transfer and/or bank's acceptance notes within 5 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. To the extent that the finance leasing company makes payment by way of a bank draft, such payment will be recorded as bills receivable.

Instalment payments with terms more than one year are discounted at a rate which approximates the debtor's borrowing rate in transactions with an independent lender under comparable terms and conditions. For the years ended 31 December 2012, 2013 and 2014, the weighted average discount rate was approximately 6.15% per annum. As at 31 December 2012, 2013 and 2014, trade receivables due after one year of RMB5.3 million and RMB11.8 million and RMB23.8 million were presented net of unearned interest of RMB0.2 million and RMB0.3 million and RMB0.3 million, respectively.

Our trade receivables (net of provision for impairment) increased by approximately RMB69.9 million or 53.4% from approximately RMB130.8 million as at 31 December 2012 to approximately RMB200.7 million as at 31 December 2013 and further increased by approximately RMB107.5 million or 53.6% from approximately RMB200.7 million as at 31 December 2013 to approximately RMB308.2 million as at 31 December 2014, mainly due to an increase in sales in 2013 and 2014 and delay in payments from some of our direct customers due to the slow settlement of government fundings for the PRC road construction or maintenance projects that they participated in. We believe that this was an industry wide phenomenon currently in the PRC. Our direct customers with slow settlement records are mainly road construction companies which include construction companies, construction engineering companies and construction machinery companies.

The settlement pattern of our five largest customers as at 31 December 2012, 2013 and 2014 are as follows:

For the year ended 31 December 2012

Customer	Business	Participated in government funded road construction or maintenance project in the PRC	Approximate years of business relationship with Customer	Turnover in 2012	Percentage of total turnover	Trade receivables as at 31 December 2012	Subsequent settlement up to 31 March 2015	Percentage of subsequent settlement
				(RMB'000)	*(%)*	*(RMB'000)*	*(RMB'000)*	*(%)*
Customer A	a Russian company engaged in leasing of construction machinery and equipment and production of asphalt-concrete mixtures	No	7	17,550	4.8	11	11	100.0
Customer B	a road construction company based in Shandong province, the PRC	Yes	13	16,970	4.7	0	N/A	N/A
Customer C	a construction machinery and maintenance equipment dealer based in Zhejiang province, the PRC	No	6	16,200	4.4	5,560	5,560	100.0
Individual Customer	an individual who is engaged in equipment leasing and road construction business in the PRC	Yes	4	13,195	3.6	4,800	4,800	100.0
Customer D	a company which provides, amongst others, finance leasing services and equipment leasing services in the PRC	No	11	12,421	3.4	0	N/A	N/A
			Total	76,336	21.0			

For the year ended 31 December 2013

Customer	Business	Participated in government funded road construction or maintenance project in the PRC	Approximate years of business relationship with customer	Turnover in 2013	Percentage of total turnover	Trade receivables as at 31 December 2013	Subsequent settlement up to 31 March 2015	Percentage of subsequent settlement
				(RMB'000)	*(%)*	*(RMB'000)*	*(RMB'000)*	*(%)*
Customer D	a company which provides, amongst others, finance leasing services and equipment leasing services in the PRC	No	11	33,514	8.1	0	N/A	N/A
Customer A	a Russian company engaged in leasing of construction machinery and equipment and production of asphalt-concrete mixtures	No	7	17,958	4.4	0	N/A	N/A
Customer E	a solvent oil manufacturer, hardware and building materials supplier and equipment leasing service provider based in Xinjiang Uygur Autonomous Region, the PRC	No	11	14,120	3.4	7,343	6,860	92.3
Customer F	a company based in Hubei province, the PRC, which provide equipment leasing services and sale of construction machinery spare parts	No	14	12,220	3.0	6,530	6,530	100.0
Customer G	a road construction and equipment leasing company based in Henan province, the PRC	Yes	2	9,733	2.4	9,700	3,500	36.1
			Total	87,545	21.2			

For the year ended 31 December 2014

Customer	Business	Participated in government funded road construction or maintenance project in the PRC	Approximate years of business relationship with customer	Turnover in 2014	Percentage of total turnover	Trade receivables as at 31 December 2014	Subsequent settlement up to 31 March 2015	Percentage of subsequent settlement
				(RMB'000)	*(%)*	*(RMB'000)*	*(RMB'000)*	*(%)*
Customer C	a construction machinery and maintenance equipment dealer based in Zhejiang province, the PRC	No	6	27,993	6.3	19,671	4,480	22.8
Customer D	a company which provides, amongst others, finance leasing services and equipment leasing services in the PRC	No	11	19,925	4.5	0	N/A	N/A
Customer H	a road construction company based in Ningxia Hui Autonomous Region, the PRC	Yes	1	14,068	3.2	1,641	0	0.0
Customer I	a India company engaged in development, maintenance and operations of all types of infrastructural projects or facilities including roads, transportation and other infrastructure projects	No	1	10,644	2.4	0	N/A	N/A
Customer J	an equipment, building materials and precious metal dealer based in Yunnan province, the PRC	No	6	9,897	2.2	4,369	1,000	22.9
			Total	82,527	18.6			

The following table sets forth the average turnover days of our trade receivables as at the dates indicated:

	At 31 December		
	2012	**2013**	**2014**
Average trade and bills receivables turnover days	125	153	213

Note: Average trade receivables turnover days are calculated by averaging the trade receivables balance after provision for impairment as at the beginning and as at the end of a particular period, dividing such average by turnover during the period and multiplying the number of days in the period.

Our average trade and bills receivable turnover days increased from approximately 125 days as at 31 December 2012 to approximately 153 days as at 31 December 2013 and to approximately 213 days as at 31 December 2014, mainly due to the same reasons for the changes in the balance of our trade receivables as stated above.

Impairment losses in respect of trade receivables are recorded using an allowance account unless we consider that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. When determining whether we will record impairment losses on our trade receivables, we will consider factors such as whether the relevant customer is in significant financial difficulty, whether there has been a breach of contract or previously agreed repayment plan, whether it becomes probable that the relevant customer will enter into bankruptcy or other financial reorganisation, whether there have been significant changes in the technological, market, economic or legal environment that have an adverse effect on the relevant customer, including actual or expected suspension or termination of the relevant road construction and maintenance projects. In addition, when there is an overdue trade receivable balance, our sales personnel will contact the relevant customer and try to reach a verbal or written agreement with such customer on repayment plan. If the customer has agreed to make repayment on a certain date and fails to fulfill the repayment plan, we may evaluate the potential uncertainty in the recovery of trade receivable and record impairment losses accordingly. The following table sets forth the movement in the provision for impairment as at the dates indicated:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Opening balance	315	4,733	15,122
Impairment losses recognised *(note)*	4,418	10,389	4,765
Uncollectible amounts written off	–	–	–
Closing balance	4,733	15,122	19,887

Note: including impairment losses provided for amounted to approximately RMB4.4 million, RMB10.4 million and RMB15.0 million and impairment losses reversal amounted to nil, nil and RMB10.2 million, respectively for the years ended 31 December 2012, 2013 and 2014, respectively.

For the years ended 31 December 2012, 2013 and 2014, we provided impairment losses in the amount of approximately RMB4.4 million, RMB10.4 million and RMB15.0 million, respectively, and reversed impairment losses in the amount of nil, nil and RMB10.2 million, respectively. The balances of provision for impairment representing approximately 3.5%, 7.0% and 6.1% of our trade receivables (net of unrecognised interest income), respectively. The increase in impairment losses for the year ended 31 December 2013 and 2014, respectively, was mainly due to continued delay in payments from those PRC road construction companies, which was in turn mainly due to the slow settlement of government funds for those road construction or maintenance projects that those PRC road construction companies participated in. We have not written off any trade receivable and related impairment provision during the Track Record Period because we are of the view that the recovery of these amounts is not remote based on the nature and size of the road construction or maintenance projects that those customers participated in, namely, PRC government funded road construction or maintenance projects, as well as those customers' financial condition and payment track records.

The following table sets forth the ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired as at the dates indicated:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	89,575	90,684	175,906
Past due but not impaired:			
Less than 3 months past due	18,332	49,433	47,138
3 to 12 months past due	15,395	39,345	33,185
Over 12 months past due	2,089	4,383	5,051
Total amount past due but not impaired	35,816	93,161	85,374
	125,391	183,845	261,280

Trade receivables that were past due but not impaired relate to the customers that have good payment track records with the Group and did not encounter financial difficulty nor fail to fulfill their repayment plan. Based on past experience with these customers and evaluation of their current creditability, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The following table set forth the subsequent settlements of our trade receivables past due but not impaired as at 31 March 2015:

	Collection of balance outstanding					
	At 31 December 2012	Subsequent settlement%	At 31 December 2013	Subsequent settlement%	At 31 December 2014	Subsequent settlement%
	RMB'000		*RMB'000*		*RMB'000*	
Less than 3 months past due	18,332	100.0%	49,433	91.8%	47,138	40.4%
3 to 12 months past due	15,395	100.0%	39,345	93.9%	33,185	33.7%
Over 12 months past due	2,089	100.0%	4,383	100.0%	5,051	100.0%
	35,816	100.0%	93,161	93.1%	85,374	41.3%

The following tables further set forth the subsequent settlement of our trade receivables past due but not impaired as at 31 March 2015 by customer type and by ageing:

As at 31 December 2012	3 months past due	3 to 12 months past due	Over 12 months past due	Total subsequent settlement as at 31 March 2015
Direct customers	100.0%	100.0%	100.0%	100.0%
Distributors	N/A	100.0%	N/A	100.0%
Total	100.0%	100.0%	100.0%	100.0%

As at 31 December 2013	3 months past due	3 to 12 months past due	Over 12 months past due	Total subsequent settlement as at 31 March 2015
Direct customers	91.4%	93.2%	100.0%	92.5%
Distributors	100.0%	100.0%	N/A	100.0%
Total	91.8%	93.9%	100.0%	93.1%

As at 31 December 2014	3 months past due	3 to 12 months past due	Over 12 months past due	Total subsequent settlement as at 31 March 2015
Direct customers	40.3%	33.8%	100.0%	41.6%
Distributors	41.9%	31.7%	N/A	37.4%
Total	40.4%	33.7%	100.0%	41.3%

None of our trade receivables past due but not impaired as at 31 December 2012, 2013 and 2014 were receivables from finance leasing companies.

As at 31 March 2015, for the trade receivables past due but not impaired as at 31 December 2012, 2013 and 2014, approximately 100.0%, 93.1% and 41.3% of the balances have been subsequently settled, respectively and all of the trade receivables that are past due for over 12 months but not impaired as at 31 December 2014 have been settled. With respect to customers with overdue trade receivables that are not impaired and that were not fully settled as at 31 March 2015, there were 6 state-owned enterprises with material outstanding balances, representing approximately 32.6% of the balance of overdue trade receivables that were not impaired as at 31 March 2015. Most of the other customers with outstanding overdue trade receivables that were not impaired as at 31 March 2015 were non-state owned entities. The years of our business relationship with these customers typically ranges from two to six years. We are of the view that the overdue trade receivables that are not impaired as at 31 March 2015 can be fully recoverable mainly because (i) these customers are not new customers and we have established good business relationships with them and credit assessment had been conducted for each of them; (ii) the customers with outstanding trade receivable balances have been making continuous and gradual repayments, though delayed, in accordance with the extended repayment schedule as committed by them, and we are not aware of any financial difficulty they have encountered based on our evaluation of impairment loss; and (iii) the delay in the settlement of the outstanding trade receivable balances were mainly due to the slow settlement of government funding for road construction or maintenance projects in the PRC.

Overdue balance collection and review

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 of 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 customers with overdue trade receivables. Our management will from time to time review, and if appropriate, revise and update our credit policy and internal control procedures in trade receivables collection.

Our Directors are of the view that our internal control measures to monitor the customers' credit risk and risk associated with the overdue trade receivables are effective for the following reasons:

1. We have established policies in relation to approval of credit terms and review and collection of overdue balances, as set out above in this section.

2. The increase in trade receivables that are past due for over 12 months but not impaired as at 31 December 2013 and 31 December 2014 was mainly due to factors relating to the industry wide phenomenon which we are unable to control.

3. The percentage of the trade receivables that are past due over 12 months but not impaired as at 31 December 2014 remained stable at a low level at approximately 1.9% of the total amount of trade receivables that are not impaired compared to approximately 2.4% as of the total amount of trade receivables that are not impaired as at 31 December 2013.

4. We have considered whether we should record impairment losses on each overdue balances on a case by case basis. The delay in the settlement of overdue trade receivables by those customers to us was mainly due to the slow settlement of funding for PRC road construction or maintenance projects that those customers participated in. We have recorded impairment losses of approximately RMB10.4 million and RMB4.8 million for the year ended 31 December 2013 and 2014, respectively. Taking into consideration the size and nature of projects that our customers participated in as well as the financial condition and payment track records, including the fulfilment of extended repayment commitment, of our customers, we are of the view that those overdue trade receivables are recoverable.

5. As at 31 March 2015, 100.0%, 93.1% and 41.3% of trade receivables that were past due but not impaired as at 31 December 2012, 2013 and 2014, respectively, have been collected.

Bills receivables

Bills receivables represent receivables from our customers that pay us in short-term bank acceptance notes. We are entitled to receive the full face amount from the banks at maturity, which generally ranges from 3 to 6 months from the date of issuance. During the Track Record Period, we had not experienced any credit losses on our bills receivables. We may from time to time present these notes to banks for acceptance at a discount prior to the maturity date of these notes. We did not present any short term acceptance notes to bank for acceptance prior to the maturity date of the notes in 2012. During the year ended 31 December 2013 and 2014, bills receivables of approximately RMB21.7 million and RMB0.8 million were presented to banks prior to maturity of the notes.

Prepayments to suppliers

Our prepayments decreased from approximately RMB14.3 million as at 31 December 2012 to approximately RMB11.1 million as at 31 December 2013, mainly due to less prepayments made at year ended 31 December 2013 to our raw materials suppliers based on our production plan compared to that at 31 December 2012.

Our prepayment increased from approximately RMB11.1 million as at 31 December 2013 to approximately RMB22.8 million as at 31 December 2014, mainly due to an increase in purchase of raw materials, parts and components from our suppliers, which was in turn mainly due to the increase in the production for our products based on our advance production schedule during January and February in light of the late Chinese New Year in late February in 2015 as compared with that was in early February in 2014.

Other receivables and deposits

Other receivables and deposits represent mainly deposits for tenders, lease and utilities.

Other receivables and deposits decreased from approximately RMB5.6 million as at 31 December 2012 to approximately RMB2.1 million as at 31 December 2013, mainly due to the receivables arising from the net recoverable VAT as at 31 December 2012.

Other receivables and deposits increased from approximately RMB2.1 million as at 31 December 2013 to approximately RMB6.7 million as at 31 December 2014, mainly due to the reclassification of certain portion of security deposits paid to finance leasing companies, which will be refunded to us within one year, from long term receivables to other receivables and an increase in the amount of deposit paid to custom deposits.

Amount due from related parties

Please refer to the paragraph headed “Related Party Transactions” in this section for details.

Trade and other payables

Our trade and other payables comprise of trade payables, bills payables, receipts in advance, accrued expenses and other payables, payable related to acquisition of non-controlling interests, accrued staff costs, product warranty provision and sundry taxes payable.

The following table sets forth a summary of the balance of our trade and other payables as at the dates indicated:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	18,553	35,564	35,158
Bills payable	51,154	36,603	37,827
Trade and bills payables	69,707	72,167	72,985
Receipts in advance	21,070	16,108	3,551
Accrued expenses and other payables	9,020	11,874	14,103
Accrued staff costs	2,907	4,841	7,072
Product warranty provision	978	1,421	1,540
Sundry taxes payables	305	861	413
	103,987	107,272	99,664
Amount due to related parties	798	4,429	54,541
Trade and other payables	104,785	111,701	154,205

Trade and bills payable

Trade payables primarily comprise of amounts due to our suppliers and subcontractors in cash. Depending on the terms of the supply contracts, we may settle payment to our suppliers and subcontractors in cash or in short term bank acceptance notes. The amounts due to our suppliers and subcontractors in the form of short term bank acceptance notes are recorded as bills payable.

The payments terms of our suppliers and subcontractors are as follows:

Suppliers	Our suppliers usually do not give us 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 Euro for overseas suppliers.
Subcontractors	Our subcontractors usually do not give us 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.

There was no material fluctuation in the total balance of trade and bills payable as at 31 December 2012, 2013 and 2014.

The following table sets forth the ageing analysis of our trade and bills payables as at the dates indicated:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	54,185	55,247	40,636
After 3 months but within 6 months	15,344	16,658	32,014
After 6 months but within 1 year	178	262	335
	69,707	72,167	72,985

As at 31 March 2015, approximately 71.2% of our trade and bills payables as at 31 December 2014 were subsequently settled.

The following table sets forth the average turnover days of our trade and bills payable as at the dates indicated:

	At 31 December		
	2012	**2013**	**2014**
Average trade and bills payable turnover days *(Note)*	88	109	102

Note: Average trade and bills payable turnover days are calculated by averaging the trade and bills payable balance as at the beginning and as at the end of a particular period, dividing such average by cost of sales during the period and multiplying the number of days in the period.

Our trade and bills payable turnover days increased from 88 days as at 31 December 2012 to 109 days as at 31 December 2013, mainly due to an increase in procurement of raw materials, parts and components from our suppliers and subcontractors in the fourth quarter of 2013 to meet our production demand in 2014. Our trade and bills payable turnover days remained stable at approximately 102 days as at 31 December 2014.

Receipts in advance

Our receipts in advance represent deposits we received from our customers for their orders.

Our receipts in advance decreased from approximately RMB21.1 million as at 31 December 2012 to approximately RMB16.1 million as at 31 December 2013, mainly due to a decrease in the amount of deposit we received from our customers as a result of less number of sales contracts that we entered into with our customers as at 31 December 2013, compared to those as at 31 December 2012.

Our receipts in advance decreased from approximately RMB16.1 million as at 31 December 2013 to approximately RMB3.6 million as at 31 December 2014, mainly due to a decrease in amount of deposits received from the sale of asphalt mixing plants as at 31 December 2014, which was in turn due to the fact that as at 31 December 2014, we did not request for deposits from some of our customers which are repeated customers with good historical repayment records.

Accrued expenses and other payables

Our accrued expenses and other payables represent mainly the commissions payable to our distributors which acts as our sales agent and payables under leases.

Our accrued expenses and other payables increased from approximately RMB9.0 million as at 31 December 2012 to approximately RMB11.9 million as at 31 December 2013, mainly due to an increase in the sales commissions payable to our distributors as at 31 December 2013. Our accrued expenses and other payables increased to approximately RMB14.1 million as at 31 December 2014, mainly due to the amounts payable by BW Enterprise to acquire Langfang Deying's 1% equity interest in Langfang D&G and Langfang Decai's 1% equity interests in Langfang D&G in connection with the Reorganisation. Please refer to the paragraph headed "History, Reorganisation and Corporate Structure – Reorganisation – 6. Issue of Shares by our Company to the Offshore Employee Holding Entities" in this document for details.

Accrued staff costs

Our accrued staff costs represent mainly accrued salaries and staff benefits.

Our accrued staff costs increased from approximately RMB2.9 million as at 31 December 2012 to approximately RMB4.8 million as at 31 December 2013 and increased from approximately RMB4.8 million as at 31 December 2013 to approximately RMB7.1 million as at 31 December 2014, mainly due to increase in the provisions in respect of the unpaid social insurance and housing provident fund.

Product warranty provision

A provision for warranties is recognised when the underlying products are sold. Under the terms of our sales agreements, we will rectify any product defects arising within the warranty period, which is usually a period of 15 months from the date of product delivery or 12 months from the date of customer acceptance whichever is earlier. For overseas customers or customers with overseas projects, the Group offers a longer warranty period of 18 to 24 months. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of products sold which are still within warranty period. The amount of provision takes into account the Group's recent claim experience and historical warranty data. During the Track Record Period, the Group has not received any material warranty claims relating to specific cases which warranted for specific warranty provision, except for the general warranty provision provided.

The following table sets forth the movement of product warranty provision for the periods indicated:

	As at 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January	883	978	1,421
Provision for the year	978	1,749	1,487
Utilisation during the year	(883)	(1,306)	(1,368)
Balance at 31 December	978	1,421	1,540

Amount due to related parties

Please refer to the paragraph headed "Related Party Transactions" in this section for details.

Related party transactions

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

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

Name of party	Relationship
Vermeer (Beijing) Trading & Service Co., Ltd.* 威猛(北京)商貿有限公司	Entity which the Controlling Shareholder has significant influence
Balama Prima Shanghai Equipment Limited* 百瑪威(上海)機械設備商貿有限公司	Entity controlled by the Controlling Shareholder
Balama Prima Engineering Company Limited* 百萊瑪工程有限公司	Entity controlled by the Controlling Shareholder
Shanghai Wendefeng Investment Management Partnership Enterprise (Limited Partnership)* 上海穩德豐投資管理合夥企業(有限合夥)	Entity controlled by the key management personnel
Beijing D&G Machinery Company Limited* 北京德基機械有限公司	Entity controlled by the Controlling Shareholder since 4 December 2014

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

The below set forth the related party transactions of the Group during the Track Record Period extracted from note 26 to the Accountant's Report in Appendix I to this document:

(a) Transactions with related parties

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Recurring transactions:			
Rental income from related parties:			
Vermeer Beijing Manufacturing Co., Ltd.	1,828	1,893	1,983
Vermeer (Beijing) Trading & Service Co., Ltd.	16	33	33
Balama Prima Shanghai Equipment Limited	40	–	–

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Rental expense to related parties:			
Choi Hung Nang	184	184	184
Diamond Strong	425	417	418
Beijing Weilifei	148	150	124
Non-recurring transactions:			
Advance to related parties:			
Diamond Strong	–	–	2,790
Choi Kwan Li, Glendy	1,211	–	–
Repayment of advances to related parties:			
Choi Hung Nang	–	118	3,381
Choi Kwan Li, Glendy	–	–	2,743
Advance from related parties:			
Balama Prima Holdings Ltd.	–	3,255	7,002
Treasure Merger Holdings Limited	–	–	804
Lao Kam Chi	–	24	63
Tom Liu Jing-zhi	–	–	79

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Repayment of advances from related parties:			
Balama Prima Holdings Ltd	–	–	6,395
Treasure Merger Holdings Limited	–	–	804
Lao Kam Chi	–	–	53
Tom Liu Jing-zhi	–	–	53
Loans from shareholder			
BVI-Prima DG	–	–	116,554
Disposal of property, plant and equipment and other assets			
Beijing Weilifei	–	–	15,374

Our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole. For more details of our continuing related party transactions after the Listing, please refer to the section headed "Connected transactions".

Advances from/to related parties of the Group are unsecured, interest-free and have no fixed term of repayment during the Track Record Period.

(b) Balances with related parties

The following tables set forth the balance of our amount due from and due to related parties as at the dates indicated:

Amounts due from:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Choi Hung Nang	3,581	3,354	–
Choi Kwan Li, Glendy	2,806	2,722	–
Beijing D&G Machinery Company Limited	–	–	846
Beijing Weilifei	–	–	15,717
Diamond Strong	–	–	2,790
	6,387	6,076	19,353

Amounts due to:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Balama Prima Holdings Ltd.	–	3,255	3,873
Diamond Strong	348	522	45,166
Choi Hung Nang	367	551	698
Lao Kam Chi	27	50	60
Beijing Weilifei	28	24	28
Tom Liu Jing-zhi	28	27	53
Wendefeng LP	–	–	4,663
	798	4,429	54,541

Shareholders' loans:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
BVI-Prima DG	–	–	116,554

The outstanding balance of amount due from Beijing Weilifei as at 31 December 2014 primarily represented the consideration receivable for the disposal of Beijing D&G's investment properties and certain assets, which will be fully settled on or before 31 May 2015. Please refer to Note 26(i) to the Accountants' Report in Appendix I to this document for details and the section headed "History, Reorganisation and Corporate Structure – Reorganisation – 5. Acquisition of equity interests in Langfang D&G by BW Enterprise and reorganisation of the PRC operating companies – Sale of equity interests in Beijing D&G and acquisition of assets by Langfang D&G" for details on the transactions.

The outstanding balances of amounts due to Diamond Strong and Wendefeng LP as at 31 December 2014 represents the consideration payable for the transfer of the equity interests in Langfang D&G held by Diamond Strong and Wendefeng LP, respectively to the Group, in connection with the Reorganisation. The outstanding balance of amount due to Diamond Strong has been settled by the Group on 21 January 2015 with the funds from the Diamond Strong Loan. The outstanding balance of amount due to Wendefeng LP has been settled by the Group on 27 April 2015.

The shareholder's loans granted by BVI-Prima DG refer to the Prima DG Shareholder's Loan and HK$1.4M Loan, which were applied to settle the payable for acquisition of non-controlling interests in Langfang D&G held by certain private equity investors and for the purpose of financing the incorporation and administrative expenses of the Company, Rich Benefit and DGHK.

The Diamond Strong Loan, the Prima DG Shareholder's Loan and HK$1.4M Loan will be settled by the Capitalisation of the Loans on the Listing Date. For further details about the Capitalisation of the Loans and the corporate and shareholding structure immediately after the completion of the Capitalisation Issue, the **[REDACTED]** and the Capitalisation of the Loans, please refer to the section headed "History, Reorganisation and Corporate Structure – Reorganisation – 8. **[REDACTED]**, Capitalisation Issue and the issue of Shares to Regal Sky and BVI-Prima DG" in this document.

The outstanding balances of amounts due from Mr. Choi and Ms. Glendy Choi and Diamond Strong, and the amounts due to Balama Prima Holdings Ltd., Lao Kam Chi and Tom Liu Jing-zhi are unsecured, interest free and have no fixed terms of repayment. Our Directors confirm that all of the outstanding balances with related parties will be settled prior to the Listing.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, our operations were primarily financed by cash generated from our operations, equity contributions from our shareholders and proceeds of bank borrowings. We use our cash primarily to fund our operations, repay bank borrowings, purchase property, plant and equipment and pay our income tax. We expect that we will continue to principally rely on cash generated from our operations and proceeds of bank borrowings to fund our operations.

Cash Flow

The following table presents selected cash flow data from our consolidated statements of cash flows as for the periods indicated:

	Year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Net cash generated from/(used in) operating activities	32,442	20,085	(60,892)
Net cash (used in)/generated from investing activities	(9,319)	(8,196)	107
Net cash (used in)/generated from financing activities	(17,363)	(7,261)	21,983
Net increase/(decrease) in cash and cash equivalents	5,760	4,628	(38,802)
Cash and cash equivalents at 1 January	57,049	62,798	67,407
Effect of foreign exchange rate changes	(11)	(19)	2
Cash and cash equivalents at 31 December	62,798	67,407	28,607

Net cash generated from/used in operating activities

We had net cash used in operating activities of approximately RMB60.9 million in 2014, which was primarily attributable to (i) a profit before taxation of approximately RMB101.3 million; (ii) adjusted for certain non-cash items, mainly including depreciation of our fixed assets of approximately RMB9.3 million and finance costs of approximately RMB1.7 million; (iii) adjusted for changes in certain working capital items, mainly including an increase in trade and other receivables of approximately RMB123.9 million, mainly due to an increase in trade and bills receivables in the amount of approximately RMB95.8 million, an increase in prepayments in the amount of approximately RMB11.7 million and an increase in amount due from related parties of approximately RMB13.3 million; an increase in inventories of approximately RMB15.6 million; and a decrease of trade and other payables of approximately RMB12.2 million mainly arising from the settlement of the trade payables; and (iv) income tax payment of approximately RMB21.0 million. Please refer to the paragraphs headed "Discussion on key items from the consolidated statements of financial position – Inventory, trade and other receivables and trade and other payables" of this section for details of the reasons for the changes in our inventory, trade and other receivables and trade and other payables.

We had net cash generated from operating activities of approximately RMB20.1 million in 2013, which was primarily attributable to (i) a profit before taxation of approximately RMB86.2 million; (ii) adjusted for certain non-cash items, mainly including depreciation of our fixed assets of approximately RMB8.0 million and finance costs of approximately RMB3.2 million; (iii) adjusted for changes in certain working capital items, mainly including a decrease in pledged bank deposits of approximately RMB3.7 million and an increase in trade and other payables of approximately RMB3.6 million, mainly due to the combination of a slight increase in the amount of trade and bills payable of the amount of approximately RMB2.5 million, a decrease in receipts in advance in the amount of approximately RMB5.0 million, an increase in accrued expenses and other payables in the amount of RMB2.9 million and an increase in accrued staff costs in the amount of approximately RMB1.9 million. Please refer to the section headed "Description of key items from the consolidated statements of financial position – Trade and other payables" for details of the reasons for the changes of these items; and (iv) partially offset by an increase in trade and other receivables of approximately RMB59.6 million, and an increase in inventories of approximately RMB14.6 million; and (v) income tax payment of approximately RMB9.9 million. Please refer to the paragraphs headed "Discussion on key items from the consolidated statements of financial position – Inventory and trade and other receivables" of this section for details of the reasons for the changes in our inventory and trade and other receivables.

We had net cash generated from operating activities of approximately RMB32.4 million in 2012, which was primarily attributable to (i) a profit before taxation of approximately RMB60.2 million; (ii) adjusted for certain non-cash items, mainly including, depreciation of approximately RMB6.8 million and finance costs of approximately RMB10.7 million; (iii) adjusted for an increase in trade and other payables of approximately RMB35.5 million, mainly due to an increase in purchase of raw materials, parts and components to meet the demand for our products in 2012; (iv) partially offset by an increase in pledged bank deposits of approximately RMB10.0 million, an increase in trade and other receivables of approximately RMB44.4 million, mainly due to an increase in sales of our products in 2012, and an increase in inventories of approximately RMB13.0 million, mainly due to an increase in the purchase of raw materials, parts and components to meet the demand for our products in 2012; and (v) income tax payment of approximately RMB13.9 million.

Net cash used in/generated from investing activities

We had net cash generated from investing activities of approximately RMB0.1 million in 2014, mainly due to repayments of advances to related parties of approximately RMB6.1 million and interest received of approximately RMB0.8 million, as partially offset by payment of purchase of property, plant and equipment of approximately RMB4.1 million, primarily associated with improvement on our manufacturing facilities and gantry cranes and advances to related parties of approximately RMB2.8 million.

We had net cash used in investing activities of approximately RMB8.2 million in 2013, mainly due to payment of purchase of property, plant and equipment of approximately RMB9.2 million, primarily associated with the purchase of gantry cranes and construction of our manufacturing facilities.

We had net cash used in investing activities of approximately RMB9.3 million in 2012, mainly due to payment of purchase of property, plant and equipment of approximately RMB9.0 million, primarily associated with the purchase of machinery for use in production, the improvement on our manufacturing facilities as well as the expenditure on the production of our asphalt mixing plant for leasing purpose.

Net cash generated from/used in financing activities

We had net cash generated from financing activities of approximately RMB22.0 million in 2014, mainly due to proceeds from Prima DG Shareholder's Loan of approximately RMB116.6 million, proceeds from bank loans and borrowings of approximately RMB81.6 million, advances from related parties of approximately RMB7.9 million, proceeds from shares issued in connection with the Reorganisation of approximately RMB7.9 million, partially offset by payment related to the acquisition of non-controlling interests of approximately RMB115.4 million, repayments of bank loans and borrowing of approximately RMB67.5 million, repayment of advances from related parties of approximately RMB7.3 million and interest payments of approximately RMB1.7 million.

We had net cash used in financing activities of approximately RMB7.3 million in 2013, mainly due to repayments of bank loans and borrowing of approximately RMB50.6 million, interest payments of approximately RMB3.2 million, partially offset by proceeds from bank loans and borrowings of approximately RMB43.3 million.

We had net cash used in financing activities of approximately RMB17.4 million in 2012, mainly due to repayments of bank loans and borrowing of approximately RMB70.4 million, interest payments of approximately RMB3.5 million and dividends paid to then equity holder of approximately RMB2.2 million with respect to dividends declared in 2011, partially offset by proceeds from bank loans and borrowings of approximately RMB49.0 million and capital injection from our shareholder of approximately RMB9.8 million.

Net Current Assets

The following table sets forth the breakdown of our current assets and liabilities as at the dates indicated:

	As at 31 December			**As at 31 March**
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Current assets				
Inventories	94,883	104,365	113,776	151,518
Trade and other receivables	162,013	212,698	338,116	343,574
Pledged bank deposits	12,188	8,516	6,575	9,405
Cash and cash equivalents	62,798	67,407	28,607	17,672
	331,882	392,986	487,074	522,169
Current liabilities				
Loans and borrowings	39,139	31,836	162,546	205,290
Trade and other payables	104,785	111,701	154,205	145,129
Income tax payables	547	7,620	6,769	641
	144,471	151,157	323,520	351,060
Net current assets	187,411	241,829	163,554	171,109

Our net current assets increased by approximately RMB54.4 million from approximately RMB187.4 million as at 31 December 2012 to approximately RMB241.8 million as at 31 December 2013, mainly due to (i) an increase in inventories in the amount of approximately RMB9.5 million; (ii) an increase in trade and other receivables in the amount of RMB50.7 million, mainly due to an increase in the trade and bills receivables in the amount of approximately RMB57.6 million; (iii) a decrease in the amount of our loans and borrowings in the amount of approximately RMB7.3 million, (iv) an increase in our trade and other payables in the amount of approximately RMB6.9 million, mainly due to the combination of a slight increase in the amount of trade and bills payable of the amount of approximately RMB2.5 million, a decrease in receipts in advance in the amount of approximately RMB5.0 million, an increase in accrued expenses and other payables in the amount of RMB2.9 million and an increase in accrued staff costs in the amount of approximately RMB1.9 million; and (v) an increase in income tax payables in the amount of approximately RMB7.1 million, mainly due to an increase in the provision for current income tax for the year in the amount of approximately RMB4.7 million, as a result of an increase in our profit in 2013, and a decrease in the actual payment of our income tax in the amount of approximately RMB4.0 million. Please refer to the paragraphs headed "Discussion on key items from the consolidated statements of financial position – Inventories, trade and other receivables, trade and other payables" of this section for details of the reasons for the changes in our inventory, trade and bills receivables and trade and other payables.

Our net current assets decreased by approximately RMB78.3 million from approximately RMB241.8 million as at 31 December 2013 to approximately RMB163.6 million as at 31 December 2014, mainly due to (i) an increase in inventories in the amount of approximately RMB9.4 million; (ii) an increase in trade and other receivables in the amount of RMB125.4 million, mainly due to an increase in the trade and bills receivables in the amount of approximately RMB95.8 million; (iii) a decrease in cash and cash equivalents in the amount of approximately RMB38.8 million, mainly due to the combination of the settlement of payments to our suppliers and subcontractors and the delay in payment from some of our direct customers due to slow settlement of government funding for PRC road construction or maintenance projects that our customers participate in; (iv) an increase in the amount of our loans and borrowings in the amount of approximately RMB130.7 million, mainly due to the Prima DG Shareholder's Loan and HK$1.4M Loan of approximately RMB116.6 million in aggregate and the obtaining of the credit facilities from HSBC Bank (China) Company Limited ("**Beijing HSBC**") in respect of supply chain financing which provides factoring services to our suppliers and subcontractors that are guaranteed by related parties of approximately RMB9.5 million as at 31 December 2014; (v) an increase in our trade and other payables in the amount of approximately RMB42.5 million, mainly due to the combination of an increase in amounts due to related parties of approximately RMB50.1 million, and a decrease in receipts in advance in the amount of approximately RMB12.6 million. Please refer to the paragraphs headed "Discussion on key items from the consolidated statements of financial position – Inventory, trade and other receivables, trade and other payables and related party transactions" of this section for details of the reasons for the changes in our inventory, trade and bills receivables, trade and other payables and amounts due from related parties.

Our net current assets remained stable at approximately RMB171.1 million as at 31 March 2015, compared to approximately RMB163.6 million that as at 31 December 2014. Our current assets increased to approximately RMB522.2 million as at 31 March 2015, compared to approximately RMB487.1 million as at 31 December 2014. Our inventory increased from approximately RMB113.8 million as at 31 December 2014 to approximately RMB151.5 million as at 31 March 2015, mainly due to an increase in the purchases of raw materials and increases in work in progress to meet our production requirements after the Chinese new year in 2015. Our cash and cash equivalents decreased from approximately RMB28.6 million as at 31 December 2014 to approximately RMB17.7 million as at 31 March 2015, mainly due to the settlement of payments to our suppliers and subcontractors from January to March 2015 and income tax payments, as partially offset by the cash receipts from customers in respect of the settlement of trade receivables. Our current liabilities increased to approximately RMB351.1 million as at 31 March 2015, from approximately RMB323.5 million as at 31 December 2014 mainly due to our loans and borrowings increased from approximately RMB162.5 million as at 31 December 2014 to approximately RMB205.3 million as at 31 March 2015 mainly as a result of the Diamond Strong Loan granted in January 2015. Our trade and other payables decreased from approximately RMB154.2 million as at 31 December 2014 to approximately RMB145.1 million as at 31 March 2015, mainly due to the combined effect of an increase in trade and bills payables and receipts in advance, and our settlement in January 2015 of the consideration payable for the transfer of the equity interests in Langfang D&G held by Diamond Strong to our Group in connection with the Reorganisation.

INDEBTEDNESS

Loans and borrowings

The following sets forth our outstanding loans and borrowings as at the dates indicated:

	As at 31 December			As at 31 March
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Unsecured bank loans	5,139	4,336	4,533	9,649
Secured bank loans[i]	34,000	27,500	32,000	27,500
Loan guaranteed by related parties	–	–	9,459	6,384
Shareholder's loans	–	–	116,554	161,757
	39,139	31,836	162,546	205,290

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

	Net book value of security assets			
	As at 31 December			As at 31 March
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Property, plant and equipment	14,205	13,338	12,663	12,445
Lease prepayments	5,749	5,618	5,488	5,455
	19,954	18,956	18,151	17,900

Our loans and borrowings decreased from approximately RMB39.1 million as at 31 December 2012 to RMB31.8 million as at 31 December 2013, mainly due to the repayment of our bank loans.

Our loans and borrowings increased from approximately RMB31.8 million as at 31 December 2013 to RMB162.5 million as at 31 December 2014, mainly due to the Prima DG Shareholder's Loan and HK$1.4M Loan of approximately RMB116.6 million in aggregate and the obtaining of the credit facilities from Beijing HSBC in respect of supply chain financing which provides factoring services to our suppliers and subcontractors that are guaranteed by related parties of approximately RMB9.5 million as at 31 December 2014. The outstanding balances of the Prima DG Shareholder's Loan and HK$1.4M Loan will be settled by the Capitalisation of the Loans on the Listing Date. For further details about the Capitalisation of the Loans and the corporate and shareholding structure immediately after the completion of the Capitalisation Issue, the **[REDACTED]** and the Capitalisation of the Loans, please refer to the section headed "History, Reorganisation and Corporate Structure – Reorganisation – 8. **[REDACTED]**, Capitalisation Issue and the issue of Shares to Regal Sky and BVI-Prima DG" in this document.

As at 31 March 2015, our loans and borrowings increased further to approximately RMB205.3 million mainly due to increase in unsecured bank loans of approximately RMB5.1 million, repayment of secured bank loans of approximately RMB4.5 million, decrease in Beijing HSBC credit facilities of approximately RMB3.1 million and an increase in the shareholder's loans of approximately RMB45.2 million as a result the Diamond Strong Loan granted in January 2015.

During the Track Record Period, our bank loans and borrowings were denominated in RMB, and bore interest at a variable interest rate ranging from 6.6% to 7.2% per annum. As at 31 December 2012, 2013 and 2014, all of our bank loans and borrowings were repayable within one year or on demand.

As at 31 March 2015, we have obtained credit facilities from three banks, namely, Beijing HSBC, Nanyang Commercial Bank and Industrial Bank and approximately RMB130.0 million of such credit facilities were not drawn, of which RMB100.4 million of unused credit facilities with the Industrial Bank require 100% cash deposit as security.

Under the terms of the Beijing HSBC credit facilities, we are subject to a number of covenants and undertakings, including, covenants and undertaking that Langfang D&G shall not encumber any of its assets, distribute dividends or obtain another bank loan without Beijing HSBC's consent; and Langfang D&G shall have at least RMB300 million of net tangible assets at all time during the term of the Beijing HSBC credit facilities. We have obtained consent from Beijing HSBC on 9 February 2015 to waive the covenant on dividends distribution.

Our Beijing HSBC credit facilities were guaranteed by Choi Hon Ting Derek and Tin Suen Chu. We have obtained consent in principle from Beijing HSBC that such guarantees will be released prior to Listing.

Under the Industrial Bank credit facilities, we are subject to a number of covenants and undertakings, including covenant and undertakings that Langfang D&G shall maintain the financial covenants of having current assets of not less than RMB270 million, net assets of not less than RMB230 million, asset-to-debt ratio of not more than 70% and current ratio of not less than 180%.

The Directors confirm that there had been no material defaults by us in our bank loans and borrowings and/or breach of finance covenants during the Track Record Period.

The Directors also confirm that as at the date of this document, we have not decided to raise any material external debt financing, other than those already disclosed in this section and the possible renewal of the existing bank loans and borrowings.

As at 31 March 2015, being the latest practicable date for the purpose of this indebtedness statement, the total indebtedness of our Group was approximately RMB205.3 million.

We confirm that, other than as disclosed in this document, there had been no material change in our indebtedness from 31 March 2015 up to the Latest Practicable Date.

Contingent Liabilities

During the Track Record Period, we entered into contracts with three finance leasing companies and these finance leasing companies purchased our products to lease to end users by way of finance lease. We refer potential customers to these finance leasing companies once they have indicated their interest to lease. Once the potential customer 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 customer. We offer a guarantee under the tripartite sales contract or a separate repurchase contract to repurchase our products in case the customers breach their obligation under the equipment leasing contract. As at 31 December 2012, 2013, and 2014 and 31 March 2015, our maximum exposure to such guarantees amounted to approximately RMB18.0 million, RMB25.7

million, RMB32.7 million and RMB22.2 million, respectively. As at the Latest Practicable Date, we have not received any demand from these finance leasing companies to perform our guarantee obligations due to default by end users.

On 25 November 2013, BW Enterprise executed a guarantee in favour of Nanyang Commercial Bank in respect of a loan facility of HK$27.0 million granted by Nanyang Commercial Bank to Balama Engineering. Pursuant to such guarantee, BW Enterprise is liable to a maximum of HK$27.0 million together with interest accrued. On 11 September 2014, BW Enterprise executed a guarantee in favour of the Hongkong and Shanghai Banking Corporation Limited in respect of revolving facilities of HK$35.0 million granted by the Hongkong and Shanghai Banking Corporation Limited to Balama Engineering (which was subsequently changed to banking facilities of approximately HK$47.4 million on 14 January 2015). As at 31 December 2013 and 31 December 2014, approximately RMB10.5 million and RMB42.3 million of these two facilities in aggregate had been utilised, respectively. As at 31 March 2015, the loan facility of HK$27.0 million granted by Nanyang Commercial Bank to Balama Engineering and guaranteed by BW Enterprise had been terminated and the guarantee granted by BW Enterprise had been released. As at 31 March 2015, approximately RMB37.1 million of the banking facilities granted by the Hongkong and Shanghai Banking Corporation to Balama Engineering had been utilised. As at the Latest Practicable Date, we have not received any demand from these two banks that required us to perform our guarantee obligations. The guarantee granted by BW Enterprise in favour to the Hongkong and Shanghai Banking Corporation will be released prior to the Listing.

In November 2014, we have granted share charges over the entire share capital of Rich Benefit and BW Enterprise as securities for the Regal Sky Loan of US$5,000,000 and the Exchangeable Bond of US$8,000,000. Please refer to the sections headed "History, Reorganisation and Corporate Structure – Reorganisation – 3. Advancement of the Regal Sky Loan by Regal Sky to BVI-Prima DG, issue of Exchangeable Bond by BVI-Prima DG to Regal Sky and provision of loans by BVI-Prima DG to our Company – Provision of loans by BVI-Prima DG to our Company" and "History, Reorganisation and Corporate Structure – **[REDACTED]** Investments" for details of the Regal Sky Loan and the Exchangeable Bond". As at the Latest Practicable Date, we have not received any demand on the enforcement of these share charges. These share charges will be released upon Listing.

Except as disclosed in this section, we did not have any other outstanding loan capital, debt securities, indebtedness, debentures, bank overdrafts, liabilities under acceptance or acceptance credits or hire purchase commitments or any guarantees or other material contingent liabilities as at 31 March 2015.

Except as otherwise disclosed above in this section, none of our assets were charged during the Track Record Period and as at the Latest Practicable Date.

CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the periods indicated:

	Year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Plant and buildings	–	574	713
Machinery	7,060	9,891	7,826
Motor vehicles	1,437	455	–
Office equipment and furniture	403	364	274
Construction in progress	3,325	6,572	1,869
Total:	12,225	17,856	10,682

Our capital expenditures primarily consisted of expenditures on purchase of machinery for use in our production, construction of asphalt mixing plants for leasing purpose as well as construction of manufacturing facilities.

During the period between 31 March 2015 and the Latest Practicable Date, we did not incur any material capital expenditure. We expect to incur approximately RMB75.5 million for the year ending 31 December 2015 for the expansion of our manufacturing facilities including to increase our production capacity to over 80 units of asphalt mixing plants per year and acquisition of land. We expect to fund the capital expenditure with proceeds from the **[REDACTED]**, cash flows generated from operations and debt financing.

CAPITAL COMMITMENTS

Our capital commitments in respect of plant, property and equipment outstanding at each of the following dates not provided for in the Financial Information were as follows:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	7,172	8,947	8,723
Authorised but not contracted for	1,092	513	71
	8,264	9,460	8,794

OPERATING LEASE ARRANGEMENTS

We lease certain business premises through non-cancellable operating leases. The following table sets forth the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	934	928	1,235
After 1 year but within 5 years	719	247	2,075
After 5 years	–	–	15
Total:	1,653	1,175	3,325

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

KEY FINANCIAL RATIOS

The following table sets out a summary of certain financial ratios for the periods or as of the dates indicated:

	As 31December		
	2012	**2013**	**2014**
Current ratio	2.3	2.6	1.5
Quick ratio	1.6	1.9	1.2
Net debt-to-equity ratio *(Note 1)*	N/A	N/A	47.7%
Gearing ratio *(Note 2)*	14.3%	9.2%	60.9%

	Year ended 31 December		
	2012	**2013**	**2014**
Return on equity	18.2%	21.0%	31.1%
Return on assets	11.9%	14.6%	14.1%
Net profit margin	13.6%	17.6%	18.7%

Notes:

1. Net debt-to-equity ratio is the total amount of our loans and borrowings less cash and cash equivalents and pledged bank deposits as a percentage of total equity as of the end of each financial period.

2. Gearing ratio is the total amount of our loans and borrowings as a percentage of total equity as of the end of each financial period.

Current Ratio

Our current ratio is derived by dividing our current assets by our current liabilities at the end of each financial period.

Our current ratio improved from approximately 2.3 times as at 31 December 2012 to approximately 2.6 times as at 31 December 2013, mainly due to a larger increase in our current assets, compared to the increase in our current liabilities. Our current assets increased from approximately RMB331.9 million as at 31 December 2012 to approximately RMB393.0 million, as at 31 December 2013 mainly due to (i) an increase in inventories in the amount of approximately RMB9.5 million; (ii) an increase in trade and other receivables in the amount of RMB50.7 million, mainly due to an increase in the trade and bills receivables in the amount of approximately RMB57.6 million. Please refer to the paragraphs headed "Discussion on key items from the consolidated statements of financial position – Inventories and trade and other receivables" of this section for details of the reasons for the changes in our inventories and trade and bills receivables. Our current liabilities increased from approximately RMB144.5 million as at 31 December 2012 to approximately RMB151.2 million as at 31 December 2013, mainly due to (i) a decrease in the amount of our loans and borrowings in the amount of approximately RMB7.3 million, (ii) an increase in our trade and other payables in the amount of approximately RMB6.9 million, mainly due to the combination of a slight increase in the amount of trade and bills payable of the amount of approximately RMB2.5 million, a decrease in receipts in advance in the amount of approximately RMB5.0 million, an increase in accrued expenses and other payables in the amount of RMB2.9 million and an increase in accrued staff costs in the amount of approximately RMB1.9 million. (Please refer to the paragraph headed "Discussion on key items from the consolidated statements of financial position – Trade and other payables") of this section for details on the changes of these items, and (iii) an increase in income tax payables in the amount of approximately RMB7.1 million, mainly due to an increase in the provision for current income tax for the year in the amount of approximately RMB4.7 million, mainly due to an increase in our profit in 2013, and a decrease in the actual payment of our income tax in the amount of approximately RMB4.0 million.

Our current ratio decreased from approximately 2.6 times as at 31 December 2013 to approximately 1.5 times as at 31 December 2014, mainly due to a larger increase in our current liabilities, compared to an increase in our current assets. Our current assets increased from approximately RMB393.0 million as at 31 December 2013 to approximately RMB487.1 million as at 31 December 2014, mainly due to (i) an increase in inventories in the amount of approximately RMB9.4 million; (ii) an increase in trade and other receivables in the amount of RMB125.4 million, mainly due to mainly due to an increase in trade and bills receivables in the amount of approximately RMB95.8 million, an increase in prepayments in the amount of approximately RMB11.7 million; and an increase in other receivables and deposits in the amount of approximately RMB4.6 million; and an increase in amounts due from related parties of approximately RMB13.3 million; (iii) a decrease in cash and cash equivalents in the amount of approximately RMB38.8 million, mainly due to the combination of the settlement of payments to our suppliers and subcontractors and the delay in payment from some of our direct customers due to slow settlement of government funding for PRC road construction or maintenance projects that our customers participate in. Please refer to the paragraphs headed "Discussion on key items from the consolidated statements of financial position – Inventories and trade and other receivables" of this section for details of the reasons for the changes in our inventory and trade and other receivables. Our current liabilities increased from approximately RMB151.2 million as at 31 December 2013 to approximately RMB323.5 million as at 31 December 2014, mainly due to (i) an increase in the amount of our loans and borrowings in the amount of approximately RMB130.7 million, (ii) an increase in our trade and other payables in the amount of approximately RMB42.5 million, mainly due to the combination of a decrease in receipts in advance in the amount of approximately RMB12.6 million, an increase in accrued expenses and other payables in the amount of RMB2.2 million and an increase in amounts due to related parties of approximately RMB50.1 million. Please refer to the paragraphs headed "Discussion on key items from the consolidated statements of financial position – Trade and other payables related party transaction" of this section for details on the changes of these items.

Quick Ratio

Quick ratio is current assets less inventories dividing by current liabilities at the end of each financial period.

Our quick ratio improved from approximately 1.6 times as at 31 December 2012 to approximately 1.9 times as at 31 December 2013 and decreased to approximately 1.2 times as at 31 December 2014. The reasons for the change in our quick ratio during the Track Record Period are similar to that for our current ratio as set forth above, other than those in relation to the increase in inventories.

Net Debt to Equity Ratio

Net debt-to-equity ratio is the total amount of our loans and borrowings less cash and cash equivalents and pledged bank deposits as a percentage of total equity as of the end of each financial period.

Our net debt-to-equity ratio as at 31 December 2012 and 2013 is not meaningful as we had net cash position on those dates.

We had a net debt-to-equity ratio of 47.7% as at 31 December 2014.

Gearing Ratio

Gearing ratio is the total amount of our loans and borrowings as a percentage of total equity as of the end of each financial period.

The decrease in our gearing ratio from approximately 14.3% as at 31 December 2012 to approximately 9.2% as at 31 December 2013 was mainly due to (i) a decrease in bank loans and borrowings due to repayment of bank loans and borrowings; and (ii) the increase in total equity as at 31 December 2013 as a result of the net profit we have recorded in 2013.

The increase in our gearing ratio from approximately 9.2% as at 31 December 2013 to approximately 60.9% as at 31 December 2014 was mainly due to (i) the Prima DG Shareholder's Loan and HK$1.4M Loan in connection with the Reorganisation; (ii) an increase in bank loans and borrowings; and (iii) a decrease in total equity as at 31 December 2014 as a result of the acquisition of non-controlling interests.

Return on Equity

Our return on equity is our profit for the year as a percentage of our equity for each financial year.

Our return on equity increased from approximately 18.2% in 2012 to approximately 21.0% in 2013, mainly due to the significant increase in our profit in 2013. Please refer to the paragraph headed "Results of Operations – Year ended 31 December 2013 compared to the year ended 31 December 2012" for the reasons for the increase in our profit for the year in 2013.

Our return on equity increased from approximately 21.0% in 2013 to approximately 31.1% in 2014, mainly due to a decrease in total equity as at 31 December 2014 as a result of the acquisition of non-controlling interests.

Return on Assets

Our return on assets is derived by dividing our profit for the year/period by our total assets at the end of each financial year.

Our return on assets increased from approximately 11.9% in 2012 to approximately 14.6% in 2013, mainly due to the significant increase in our profit in 2013. Please refer to the paragraph headed "Results of Operations – Year ended 31 December 2013 compared to the year ended 31 December 2012" of this section for the reasons for the increase in our profit for the year in 2013.

Our return on assets remained stable at approximately 14.6% in 2013 and approximately 14.1% in 2014.

Net Profit Margin

Our net profit margin is calculated by dividing our profit for the year/period by turnover.

Our net profit margin increased from approximately 13.6% in 2012 to approximately 17.6% in 2013, mainly due to the increase in our gross profits in 2013 and the decrease in our finance costs in 2013. Please refer to the paragraph headed "Results of Operations – Year ended 31 December 2013 compared to the year ended 31 December 2012" of this section for the reasons for increase in gross profit, and the decrease in finance costs in 2013.

Our net profit margin increased from approximately 17.6% in 2013 to approximately 18.7% in 2014, mainly due to the increase in our gross profits in 2014 and the decrease in our administrative expenses and finance costs in 2014. Please refer to the paragraph headed "Results of Operations – Year ended 31 December 2014 compared to the year ended 31 December 2013" of this section for the reasons for increase in gross profit, and the decrease in administrative expenses and finance costs in 2014.

WORKING CAPITAL

We plan to service our indebtedness and improve our liquidity position through the following measures:

1. we will follow up with our customers regarding the settlement of the outstanding settlement trade receivables more frequently;

2. we plan to generate more cash flows from our operations through increased sales;

3. we plan to negotiate with our major suppliers so as to extend the credit terms granted by these suppliers and settle more payment with these suppliers by way of bills (as opposed to cash); and

4. we may utilise our unused credit facilities (which amounted to RMB130.0 million as at 31 March 2015, of which RMB100.4 million of unused credit facilities with the Industrial Bank require 100% cash deposit as security), where necessary.

We may also consider adopting measures such as increasing our sales to finance leasing companies which in turn sell the asphalt mixing plants to end-users through finance lease arrangement and/or factoring our outstanding trade receivables balances as means to facilitate the timing of the settlement of our trade receivables balances to further improve our liquidity position.

Our Directors believe that notwithstanding the delay in payments from some of our direct customers as a result of the slow settlement of government funding for PRC road construction or maintenance projects that our customers participated in, after taking into account our plan above and the financial resources presently available to us, including cash flow from operations, unused credit facilities (which amounted to approximately RMB130.0 million as at 31 March 2015, of which RMB100.4 million of unused credit facilities with the Industrial Bank require 100% cash deposit as security), other internal resources and the estimated net proceeds from the **[REDACTED]**, we have sufficient working capital for our working capital requirements for at least the next 12 months from the date of this document.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risks in the normal course of our business, including credit risk, liquidity risk, interest rate risk, currency risk and commodity price risk.

Credit Risk

Our credit risk is primarily attributable to bank deposits and trade and other receivables. We have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

We place bank deposits with financial institutions that have high credit ratings. Given their credit ratings, we do not expect any counterparty to fail to meet its obligations.

Please refer to the section headed "Discussion of key terms from the consolidated statements of financial position – Trade and other recoverable" for details of our credit terms.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. As at 31 December 2012, 2013 and 2014, 7%, 5% and 7% of the total trade and bills receivables was due from the Group's largest customer and 29%, 20% and 10% of the total trade and bills receivables was due from the Group's five largest customers respectively.

Liquidity risk

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

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

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

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

	At 31 December 2014			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	164,559	–	164,559	162,546
Trade and other payables	154,205	–	154,205	154,205
	318,764	–	318,764	316,751

Interest rate risk

We are exposed to interest rate risk mainly for cash at bank, pledged bank deposits and interest-bearing borrowings. Cash at bank are with fixed interest rates ranging from 0.35% to 0.50% per annum as at 31 December 2012 and 2013 and 31 December 2014, respectively. The interest rates at our interest-bearing borrowings as at 31 December 2012, 2013 and 31 December 2014 were between 6.6% and 7.2% per annum.

Upward movements of interest rates increase the cost of our debt financing. We currently do not use derivative financial instrument to hedge our interest risk.

Please refer to the interest rate risk table in Note 23(c) to consolidated financial information included as Appendix I to this document for a sensitivity analysis with respect to interest rate fluctuations during the Track Record Period.

Sensitivity Analysis

As at 31 December, 2012, 2013 and 2014, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would have decrease or increase our profit after tax and retained profits by approximately RMB297,000, RMB369,000 and RMB161,000, respectively.

The sensitivity analysis above indicates the impact on our profit after tax for the period and retained profits that would arise assuming that there is an annualized impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis throughout the Track Record Period.

Foreign currency risk

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

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

	At 31 December 2012			At 31 December 2013			At 31 December 2014		
	United States Dollars	Euros	Australian Dollars	United States Dollars	Euros	Australian Dollars	United States Dollars	Euros	Australian Dollars
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	289	1,604	110	672	2,646	95	597	2,071	6
Cash and cash equivalents	1,556	1,488	–	10,153	539	47	1,513	–	24
Trade and other payables	(8,177)	–	(3,553)	(3,894)	–	–	(86)	–	–
Gross exposure arising from recognised assets and liabilities	(6,332)	3,092	(3,443)	6,931	3,185	142	2,024	2,071	30

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

	Year ended 31 December 2012		Year ended 31 December 2013		Year ended 31 December 2014	
	Increase/ decrease in foreign exchange rates	Effect on profit after taxation	Increase/ decrease in foreign exchange rates	Effect on profit after taxation	Increase/ decrease in foreign exchange rates	Effect on profit after taxation
		RMB'000		*RMB'000*		*RMB'000*
USD	5%	(271)	5%	295	5%	86
	-5%	271	-5%	(295)	-5%	(86)
EUR	5%	132	5%	135	5%	88
	-5%	(132)	-5%	(135)	-5%	(88)
AUD	5%	(147)	5%	6	5%	1
	-5%	147	-5%	(6)	-5%	(1)

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

DIVIDEND POLICY

Subject to the Cayman Companies Law, through a general meeting, we may declare dividends in any currency, but no dividend may be declared in excess of the amount recommended by our Board. Our Memorandum and Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine are no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law and our Memorandum of Articles of Association.

Our Directors will declare dividends, if any, in Hong Kong dollars with respect to our Shares on a per-Share basis and will pay such dividends in Hong Kong dollars. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit, calculated in accordance with PRC accounting principles, which differ in certain aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. Furthermore, distributions from our subsidiaries may be restricted if they incur debts or losses or as a result of any restrictive covenants in our bank credit facilities, or other agreements that we or our subsidiaries may enter into in the future.

During the Track Record Period, we have not declared any dividends.

We will reevaluate our dividend policy annually. Our Board has the absolute discretion to decide whether to declare or distribute dividends in any year. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the **[REDACTED]** on the consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2014, as if the **[REDACTED]** had taken place on 31 December 2014.

The pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the **[REDACTED]** been completed as at 31 December 2014 or at any future date.

	Consolidated net tangible assets of the Group attributable to the equity holders of the Company as of 31 December 2014	Estimated net proceeds from the [REDACTED]	Estimated impact to the net tangible assets of the Group upon the Capitalisation of Loans	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company per share	
	Note 1	*Note 2*	*Note 3*		*Note 4*	*Note 5*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*(RMB)*	*(HK$)*
Based on the **[REDACTED]** of HK$**[REDACTED]** for each Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on the **[REDACTED]** of HK$**[REDACTED]** for each Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2014 is based on the Group's consolidated net assets as at that date, as shown in the Accountants' Report, the text of which is set out in Appendix I to this document.

(2) The estimated net proceeds from the **[REDACTED]** are based on the **[REDACTED]** of HK$**[REDACTED]** and HK$**[REDACTED]** per Share after deduction of the underwriting fees and other related expenses payable by the Company of approximately RMB**[REDACTED]** and approximately RMB**[REDACTED]** respectively (excluding approximately RMB[4.8] million listing expenses which have been accounted for prior to 31 December 2014) and does not take into account any shares which may be issued upon the exercise of the **[REDACTED]**.

(3) Conditional upon the **[REDACTED]**, Prima DG Shareholder's Loan and HK$1.4M Loan in aggregate of RMB116,554,000 as at 31 December 2014 will be settled by issuance of [60,000,000] shares of the Company, whereby the carrying amount of the Prima DG Shareholder's Loan and HK$1.4M Loan recorded as shareholder's loans and classified as a liability of the Group will be transferred to the Group's equity.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share are arrived after the adjustments referred to in the preceding paragraphs and on the basis that **[REDACTED]** shares (including the shares in issue as of 31 December 2014, and shares that will be issued under the Capitalisation Issue, the **[REDACTED]** and the issuance of [60,000,000] shares relating to the capitalisation of Prima DG Shareholder's Loan and HK$1.4M Loan) are in issue assuming the **[REDACTED]** are completed on 31 December 2014, but does not take into account of any shares which may be issued upon the exercise of the **[REDACTED]**.

(5) The estimated net proceeds from the **[REDACTED]** are converted into Renminbi at the PBOC rate of HK$1.00 to RMB0.7891. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

(6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2014, including but not limited to the Diamond Strong loan from BVI-Prima DG of HK$58,120,000 in January 2015 and the settlement of such loan by issuance of 12,000,000 shares of the Company conditional upon the **[REDACTED]**. Had such loan been obtained and settled by issuance of shares on 31 December 2014, our unaudited pro forma adjusted net tangible assets would have been increased by RMB**[REDACTED]**, and our unaudited pro forma adjusted net tangible assets per share would have been increased by RMB**[REDACTED]** or HK**[REDACTED]**.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules upon the Listing of the Shares on the Stock Exchange.

DISTRIBUTABLE RESERVES

The Company was incorporated on 11 September 2014. As at 31 December 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB5.7 million.

LISTING EXPENSES

The estimated total listing expenses incurred in relation to the Listing are approximately RMB36.9 million, among which RMB**[REDACTED]** are estimated underwriting commissions. In accordance with Hong Kong Accounting Standard 32, Financial Instruments: Presentation, expenses that are directly attributable to the issue of **[REDACTED]** are accounted for as a deduction from equity and the expenses which do not relate to the issue of **[REDACTED]** are recognised in the consolidated statements of profit or loss and other comprehensive income as incurred. Expenses that relate jointly to the issue of **[REDACTED]** and the listing of existing shares are allocated between these activities based on the proportion of number of **[REDACTED]** issued relative to the total number of shares in issue and listed on the Stock Exchange.

We incurred approximately RMB4.8 million of listing expenses during the Track Record Period, among which RMB1.2 million was recorded as prepayments and RMB3.6 million was recorded as expenses. We expect to incur approximately an additional RMB32.1 million in listing expenses after the Track Record Period, of which approximately RMB16.9 million will be recognised as expenses in the consolidated statements of profit or loss and other comprehensive income for the year ending 31 December 2015 and the remainder will be recognised directly in equity upon Listing.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this document, there has been no material adverse change in our financial or trading position since 31 December 2014 and no event had occurred since 31 December 2014 which would materially affect the information shown in our financial information included in the Accountants' Report set out in Appendix I to this document.