

The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission take no responsibility for the contents of this Application Proof, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Application Proof.

Application Proof

D&G Technology Holding Company Limited

德基科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

WARNING

The publication of this Application Proof is required by The Stock Exchange of Hong Kong Limited (the “**Exchange**”) and the Securities and Futures Commission (the “**Commission**”) solely for the purpose of providing information to the public in Hong Kong.

This Application Proof is in draft form. The information contained in it is incomplete and is subject to change which can be material. By viewing this document, you acknowledge, accept and agree with D&G Technology Holding Company Limited (the “**Company**”), its sponsor, advisers or member of the underwriting syndicate that:

- (a) this document is only for the purpose of providing information about the Company to the public in Hong Kong and not for any other purposes. No investment decision should be based on the information contained in this document;
- (b) the publication of this document or supplemental, revised or replacement pages on the Exchange’s website does not give rise to any obligation of the Company, its sponsor, advisers or members of the underwriting syndicate to proceed with an offering in Hong Kong or any other jurisdiction. There is no assurance that the Company will proceed with the offering;
- (c) the contents of this document or supplemental, revised or replacement pages may or may not be replicated in full or in part in the actual final listing document;
- (d) the Application Proof is not the final listing document and may be updated or revised by the Company from time to time in accordance with the Listing Rules;
- (e) this document does not constitute a prospectus, offering circular, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities;
- (f) this document must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended;
- (g) neither the Company nor any of its affiliates, advisers or underwriters is offering, or is soliciting offers to buy, any securities in any jurisdiction through the publication of this document;
- (h) no application for the securities mentioned in this document should be made by any person nor would such application be accepted;
- (i) the Company has not and will not register the securities referred to in this document under the United States Securities Act of 1933, as amended, or any state securities laws of the United States;
- (j) as there may be legal restrictions on the distribution of this document or dissemination of any information contained in this document, you agree to inform yourself about and observe any such restrictions applicable to you; and
- (k) the application to which this document relates has not been approved for listing and the Exchange and the Commission may accept, return or reject the application for the subject public offering and/or listing.

If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on the Company’s prospectus registered with the Registrar of Companies in Hong Kong, copies of which will be distributed to the public during the offer period.

IMPORTANT

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

D&G Technology Holding Company Limited

德基科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED] : [REDACTED] Shares (subject to the [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to adjustment)
Number of [REDACTED] : [REDACTED] Shares (subject to adjustment, re-allocation and the [REDACTED])
Maximum [REDACTED] : HK\$[REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : HK\$0.01 per Share
Stock code : [REDACTED]

Sole Sponsor



Sole Global Coordinator

[REDACTED]

Joint Bookrunners and Joint Lead Managers

[REDACTED]

[REDACTED]

The Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this document.

A copy of this document, having attached thereto the documents specified in the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” in Appendix V to this document, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any other document referred to above.

Please see the section headed “Risk Factors” for a discussion of certain risks that you should consider before investing in our Shares.

The [REDACTED] is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us, on the [REDACTED] Date. The [REDACTED] Date is expected to be on or about [REDACTED] 2015 and, in any event, not later than [REDACTED]. The [REDACTED] will be not more than [REDACTED] and is currently expected to be not less than [REDACTED], unless otherwise announced. If, for any reason, the [REDACTED] is not agreed by [REDACTED] between the Sole Global Coordinator (on behalf of the Underwriters) and us, the [REDACTED] will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters) may, with our consent, reduce the number of [REDACTED] being offered under the [REDACTED] and/or the indicative [REDACTED] below that stated in this document (which is [REDACTED] to [REDACTED] per Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong [REDACTED]. In such a case, notices of the reduction in the number of [REDACTED] and/or the indicative [REDACTED] will be published in the [South China Morning Post] (in English) and the [Hong Kong Economic Times] (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong [REDACTED]. Further details are set out in the sections headed “Structure of the [REDACTED]” and “How to Apply for [REDACTED]” in this document.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe or purchase, and to procure applicants for the subscription or purchase of, the [REDACTED], are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the [REDACTED] commences on the Stock Exchange. Such grounds are set out in the section headed “Underwriting – Grounds for termination by the Hong Kong Underwriters” in this document. It is important that you refer to that section for further details.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The [REDACTED] are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

[30 March] 2015

EXPECTED TIMETABLE *(Note 1)*

[REDACTED]

EXPECTED TIMETABLE *(Note 1)*

[REDACTED]

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This document is issued by our Company solely in connection with the Hong Kong [REDACTED] and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the [REDACTED] offered by this document. This document may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a Hong Kong [REDACTED] of the [REDACTED] or the distribution of this document in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this document and the [REDACTED] to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this document. Any information or representation not made in this document must not be relied on by you as having been authorised by us, the Sole Global Coordinator, any of the Underwriters, any of their respective directors, or any other person or party involved in the [REDACTED].

	<i>Page</i>
Expected Timetable	i
Contents	iii
Summary	1
Definitions	15
Glossary of Technical Terms	28
Risk Factors	31
Forward-looking Statements	53
Information about this Prospectus and the Global Offering	54
Directors and Parties Involved in the Global Offering	58
Corporate Information	62
Industry Overview	65
Laws and Regulations	82
History, Reorganisation and Corporate Structure	96
Business	132

CONTENTS

Relationship with Controlling Shareholders	202
Connected Transactions	208
Directors, Senior Management and Staff	210
Substantial Shareholders	229
Share Capital	232
Financial Information	236
Future Plans and Use of Proceeds	306
Underwriting	308
Structure of the Global Offering	319
How to Apply for Hong Kong Offer Shares	328
Appendix I – Accountants’ Report	I-1
Appendix II – Unaudited Pro Forma Financial Information	II-1
Appendix III – Summary of the Constitution of our Company and Cayman Islands Company Law	III-1
Appendix IV – Statutory and General Information	IV-1
Appendix V – Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection	V-1

SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED].

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 in the PRC and abroad. Our products are mainly conventional hot-mix asphalt mixing plants and hot-mix asphalt mixing recycling plants. They are used for the production of asphalt mixtures, an essential material used in road pavements for asphalt road construction and maintenance projects. According to the CCID Report, in 2013, based on the sales volume of medium to large scale asphalt mixing plants manufactured in the PRC, we ranked second with a market share of approximately 13.8%⁽²⁾. According to the CCID Report, medium to large scale asphalt mixing plants are mainly used in the construction of new expressways, being the top-tier highways in the PRC. In addition, medium scale asphalt mixing plants are also used in the construction of new first grade and second grade highways, the high-grade highways in the PRC, as well as the construction and maintenance of major urban roads.

Our products play an important role in expressway and highway construction and municipal road maintenance projects covering approximately 30 provinces, municipalities and autonomous regions in the PRC. Over the years, we have sold our products to customers or end-users located in 18 overseas countries. We were one of the suppliers of asphalt mixing plants in a number of major construction projects in the PRC, including the Beijing-Tibet Highway* (京藏高速), Beijing-Hong Kong-Macau Highway* (京港澳高速), Jiaozhou Bay Bridge* (膠州灣大橋) and Hangzhou Bay Bridge* (杭州灣大橋). Hangzhou Bay Bridge is one of the longest trans-oceanic bridges in the world.

We operate mainly in the road construction and maintenance machinery industry in the PRC. The growth of our business depends largely on the level of road construction and maintenance work in the PRC. According to the CCID Report, the total mileage of the highways in the PRC will reach approximately 4.5 million km by 2015 and expressways, first grade highways and second grade highways, the majority of which are paved with asphalt mixtures, accounted for approximately 15.0% of the total mileage the PRC highways, equivalent to approximately 680,000 km. In the Twelfth

- (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%.

SUMMARY

Five-Year Plan – Development Outline of Highway Maintenance Management (《「十二五」公路養護管理發展綱要》), it is targeted that between 2011 and 2015, the road mileage of highways of national and provincial levels on which medium to large scale repair works are procured should account for not less than 17% of the total mileage. As such, the total mileage of expressways, first grade highways and second grade highways to be repaired could reach approximately 120,000 km. According to the CCID Report, the total funding required for road maintenance and management in the PRC from 2011 to 2030 is estimated to be approximately RMB11.5 trillion, among others, the road maintenance and management funding required for national highways, inter-provincial highways and rural roads are expected to be RMB3.1 trillion, RMB3.2 trillion and RMB5.2 trillion, respectively. We believe that there will be an increase in road maintenance activities which will lead to an increase in demand for asphalt mixing plants.

Using RAP as an alternative to new materials, such as aggregates, fillers and bitumen, in asphalt mixtures can effectively reduce cost. According to CCID Report, as up to 80% of the bitumen in the RAP can be recycled and use in the production of recycled asphalt mixtures, there could be up to 80% saving of the bitumen in the RAP portion of the materials in the recycled asphalt mixtures. According to the Guidance on Promoting Road Pavement Material Recycling* (《交通運輸部關於加快推進公路路面材料循環利用工作的指導意見》) issued by the Ministry of Transport of the PRC in 2012, the annual volume of RAP generated from medium to large scale road maintenance projects for major highways alone has reached 160 million tonnes in 2012. If 30% of such volume can be recycled each year, over RMB10.0 billion of material costs may be saved in highway construction and maintenance projects each year.

We are well positioned to capture the growth opportunities from the increase in road maintenance work and the increase in demand for asphalt mixing plants with RAP recycling functions.

It has been reported that as part of its “One Belt, One Road” development strategy, the PRC government will contribute US\$40 billion to set up a Silk Road Fund to provide investment and financing support to carry out infrastructure, resources, industrial cooperation, financial cooperation and other projects related to connectivity for Asia. We believe that this will lead to an increase in road construction work in the PRC and those countries where Silk Road Fund invests in. As a result, we believe that all of these will lead to an increase in demand for asphalt mixing plants and our extensive sales and distribution network and our experience in exporting asphalt mixing plants to overseas countries would allow us to capitalise on these market opportunities.

OUR BUSINESS MODEL

Our business primarily consists of the (i) design, manufacturing and sales of asphalt mixing plants; (ii) sales of spare parts and components and provision of equipment modification services; and (iii) leasing of our asphalt mixing plants by way of operating lease. During the Track Record Period, revenue generated from sales of asphalt mixing plants accounted for over 85.0% of our revenue.

Our customers mainly include road construction companies, road construction machinery distributors and finance leasing companies. Over the years, we have sold over 300 units of asphalt mixing plants to customers mainly in the PRC and some in overseas emerging markets and developed countries, including Australia, Russia, India and various countries in Africa.

SUMMARY

OUR PRODUCTS AND SERVICES

Products

We offer a broad range of products covering small to large scale asphalt mixing plants to cater to the needs of different customers. The asphalt mixtures produced by our asphalt mixing plants can be used in the construction or maintenance of all levels of roads and highways in the PRC. Our products can broadly be divided into two main categories: (i) conventional hot-mix asphalt mixing plant (“**Conventional Plant**”) and (ii) recycling plant (“**Recycling Plant**”). Our Conventional Plants are able to produce regular asphalt mixtures which contain, among others, bitumen, aggregates and fillers. Our Recycling Plants are able to produce (i) recycled asphalt mixtures which contain a mixture of reclaimed asphalt pavement (“**RAP**”) and new materials such as aggregates, fillers and bitumen; and (ii) regular asphalt mixtures. We are able to convert a Conventional Plant into a Recycling Plant by installing components with hot-mix asphalt mixing recycling functions developed by us into the Conventional Plant to enable the plant to produce both regular and recycled asphalt mixtures. The designed RAP added capacity of our Recycling Plants is between the range of 15% to 60%. During the Track Record Period, revenue generated from the sales of our Recycling Plants amounted to approximately RMB52.9 million, RMB90.6 million and RMB130.7 million, respectively, representing approximately 16.3%, 25.8% and 51.5% of our total revenue from the sales of asphalt mixing plants, respectively.

We are committed to developing and promoting our Recycling Plants as we expect this to be a major area of growth for the industry. According to the CCID Report, it is estimated that hot-mix recycling technology will be adopted in a majority of roads maintenance projects in the PRC in the next three to five years, which is also the technology adopted by us in our Recycling Plants. In light of the PRC government’s policies encouraging the use of pavement recycling maintenance technologies, we expect that the demand for Recycling Plants will increase. We have been the first to develop and launch a number of Recycling Plants in the PRC. According to the CCID Report, we were the first manufacturer to manufacture and launch Recycling Plants with 15% designed RAP added capacity and Double Drum Recycling Plants with 50% designed RAP added capacity in the PRC in 2003. We were also the first to manufacture and launch the Recycling Ring Recycling Plants in the PRC in 2009 and we developed the first Monoblock Recycling Plant in the PRC in 2014, according to the CCID Report. For details description of our Recycling Plants, please refer to the section headed “Business – Our Products and Services – Hot-mix asphalt mixing recycling plant” in this document. The revenue generated from the sales of Recycling Plants has increased substantially in the past few years and accounted for approximately 16.3%, 25.8% and 51.5% of our revenue from the sales of asphalt mixing plants for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, respectively.

We strive to manufacture asphalt mixing plants with environmental-friendly and energy saving features which is able to reduce the level of energy consumption and emission of dust, smoke and noise. Through our continuous efforts, we have improved various parts of the asphalt mixing plants to achieve such goals. For instance, we have developed a two-tier dust collection and closed-loop temperature control system to suppress dust emission of our asphalt mixing plants. Our asphalt mixing plants are able to maintain their dust emission level at approximately 70 mg/Nm³ or less, which is lower than the requirement under the PRC national standard of 100 mg/Nm³. In addition, our asphalt mixing plants are able to maintain its fume blackness level at Ringelmann level 1 and the noise in the control room (NCC) is generally lower than 70 dB. According to the CCID Report, these standards are amongst the highest in terms of environmental protection in the PRC.

SUMMARY

All of our asphalt mixing plants are equipped with the “DG Leap” automated control system designed by us. It is a real-time production management system which can automatically control the operation of the asphalt mixing plant, collect and analyse production data and provide maintenance recommendations to customers in a timely manner. A remote monitoring system was subsequently developed and added to the “DG Leap” automated control system in 2010. Through the monitoring platform, our customers can observe the real-time status of a plant, download and monitor all the production data and report, and even monitor the job site, from any remote places. Furthermore, we can diagnose and analyse a problem or potential error and provide repair and maintenance services for our customers remotely to provide preventative servicing and thus improve the operating efficiency of the plant. We have obtained 12 software copyrights in the PRC in relation to DG Leap system.

During the Track Record Period, we generated the majority of our revenue from the sales of asphalt mixing plants from the sales of medium to large scale asphalt mixing plants and such revenue accounted for approximately 84.0%, 85.1% and 90.9%, of our total revenue from the sales of asphalt mixing plants, respectively.

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

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

Operating lease of our products

We offer operating lease of our asphalt mixing plants directly to our customers. During the Track Record Period, we entered into equipment leasing contracts with our customers for a period ranging from 4 months to 16 months depending on the length of the road construction or maintenance projects.

RESEARCH AND DEVELOPMENT

We place great emphasis on our research and development capabilities, as we believe our success is largely dependent on technological and product innovation. Leveraging on our strong research and development capabilities, we have developed various model series of asphalt mixing plants and key components over the years. Based on the CCID Report, we are one of the few manufacturers in the PRC who are capable of manufacturing 5000 model series asphalt mixing plants, currently the largest asphalt mixing plant by production capacity produced on a mass production scale in the PRC. As stated in the CCID Report, the 4000 and 5000 model series asphalt mixing plants which we developed and launched in 2003 and 2009 respectively were the first 4000 and 5000 model series Conventional Plants launched in the PRC. Moreover, we were the first manufacturer to manufacture and launch Recycling Plants with 15% designed RAP added capacity and Double Drum Recycling Plants with 50% designed RAP added capacity in the PRC in 2003. We are also the first to manufacture and launch the Recycling Ring Recycling Plants in the PRC in 2009 and we developed the first Monoblock Recycling Plant in the PRC in 2014, according to the CCID Report.

SUMMARY

As at the Latest Practicable Date, we had (i) 29 registered patents in the PRC, of which 3 were invention patents and 26 were utility model patents; (ii) 5 patents pending registration in the PRC, of which 2 were invention patents, 3 were utility model patents; (iii) and 22 software copyrights in the PRC. In addition, Beijing D&G is in the midst of transferring 7 registered utility model patents to us. For details of our intellectual property rights, please refer to the paragraph headed “Appendix IV – Statutory and General Information – Intellectual property rights of our Group” on p.IV-1 to p.IV-41 of this document.

During the Track Record Period, we collaborated with a number of leading research institutions in the PRC and a leading university in Hong Kong on research projects, including the Research Institute of Highway, Ministry of Transport* (交通運輸部公路科學研究所), the Institute of Tsinghua University, Hebei* (河北清華發展研究院) and the Hong Kong University of Science and Technology R and D Corporation Limited.

OUR CUSTOMERS

Our customers mainly include road construction companies, road construction machinery distributors and finance leasing companies. During the Track Record Period, we sold our products primarily to our domestic customers in the PRC. In addition, we also sold our products to customers or end-users located in, amongst others, Russia, India, Australia, and certain countries in Africa, via direct and indirect export.

Expanding our business into the international market has always been one of our key business strategies. During the Track Record Period, we sold our products overseas via direct as well as indirect export. For direct export sales, we sold our products overseas to our customers directly or through our overseas distributors acting as sales agents. For indirect export sales, we sold our products to our direct customers in the PRC who undertook road construction projects overseas. During the Track Record Period, the revenue generated from overseas sales of asphalt mixing plants (including direct and indirect export sales) accounted for approximately 21.9%, 22.8% and 13.0% of our revenue from the sales of asphalt mixing plant, respectively. The decrease in the percentage of overseas sales for the nine months ended 30 September 2014 was mainly due to certain products that we have directly exported to overseas customers pending the acceptance from the customers as at 30 September 2014 and therefore no revenue was recognised.

Revenue generated from our five largest customers amounted to approximately RMB76.3 million, RMB87.5 million and RMB67.4 million, respectively, representing approximately 21.0%, 21.2% and 22.6% of our total revenue during the Track Record Period, respectively. Revenue generated from our largest customer amounted to approximately RMB17.6 million, RMB33.5 million and RMB20.2 million, respectively, representing approximately 4.8%, 8.1% and 6.8% of our total revenue during the Track Record Period, respectively.

SUMMARY

CREDIT MANAGEMENT

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

Before we accept orders from our customers, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer’s background and financial strengths, historical repayment records and current repayment ability, 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 policies, depending on the terms that our customers request for, the sales personnel must seek approval from regional manager, sales director and/or our executive Director.

With respect to the collection of trade receivables, we send payment reminder to our customers one month before the due date for payment. Our sales personnel are responsible for follow-up 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 repayment status of customers with overdue trade receivable balances. Our management will from time to time review, and if appropriate, revise and update our credit policy and internal control procedures for trade receivables collection.

SUPPLIERS AND SUBCONTRACTORS

We procure various raw materials, parts and components such as steel, electrical components, gear motors and burners from the international market and from suppliers in the PRC. We also outsource the manufacturing of certain non-key parts and components such as cold feeder bins and bitumen storage tanks to our subcontractors. Key components such as the vibrating screen, drum dryer, mixer, aggregate elevator and filler elevator are manufactured by us. We obtained our supply of raw materials, parts and components mainly from domestic suppliers.

During the Track Record Period, the aggregate purchases from our five largest suppliers amounted to approximately RMB36.1 million, RMB39.4 million and RMB32.2 million, respectively, representing approximately 18.1%, 16.6% and 14.8% of our total purchases, respectively, and the purchases from our largest supplier amounted to approximately RMB10.2 million, RMB11.4 million and RMB8.1 million, respectively, representing approximately 5.1%, 4.8% and 3.7% of our total purchases, respectively. On the other hand, the aggregate purchases from our five largest subcontractors amounted to approximately RMB44.4 million, RMB41.7 million and RMB41.3 million, representing approximately 22.3%, 17.5% and 18.9% of our total purchases, respectively, and the purchases from our largest subcontractor amounted to approximately RMB20.1 million, RMB13.3 million and RMB11.6 million, respectively, representing approximately 10.1%, 5.6% and 5.3% of our total purchases, respectively.

SUMMARY

MANUFACTURING FACILITIES

We currently manufacture our products at our manufacturing facilities in Langfang, Hebei, PRC. Our manufacturing facilities have a total area of approximately 131,856.13 sq.m., of which 100,435.38 sq.m. is owned by us and 31,420.75 sq.m. is leased to us. Our designed production capacity is 50 units asphalt mixing plants per year.

OUR COMPETITIVE STRENGTHS

Our core strengths are set out below:

- Leading medium to large scale asphalt mixing plant manufacturer and service provider in the PRC with outstanding track record and strong brand recognition
- Strong research and development capabilities
- Broad and diversified portfolio of high-quality products and comprehensive services
- Solid customer base and diversified sales channels in the PRC and abroad
- Well positioned to capture growth opportunities from PRC government policies, such as “One Belt, One Road” development strategy and the environmental protection and resources recycling
- Experienced and dedicated management team

OUR BUSINESS STRATEGIES

Our business strategies are set out below:

- Expand production capacity to meet demands for our products
- Enhance our research and development capabilities
- Continue to promote our Recycling Plants and other new products with recycling features
- Expand our sales coverage within the PRC and globally
- Continue to broaden our product offerings and development of new businesses

SUMMARY

OUR SHAREHOLDERS

Immediately following completion of the [REDACTED], BVI-Prima DG, which is wholly-owned by the Choi Family Founders will be beneficially interested in approximately [REDACTED] of the Shares in issue (assuming that the [REDACTED] is not exercised and without taking into account Shares that may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme). Accordingly, BVI-Prima DG and the Choi Family Founders will be our Controlling Shareholders within the meaning of the Listing Rules. Each of BVI-Prima DG and the Choi Family Founders has confirmed that he/she/it does not hold or conduct any business (except for our Group’s business) which competes, or is likely to compete, either directly or indirectly, with our business.

Please refer to the sections headed “Relationship with Controlling Shareholders” and “Substantial Shareholders” of this document for further details.

SUMMARY OF OUR SELECTED FINANCIAL INFORMATION

SELECTED INFORMATION FROM COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December		Nine months ended 30 September	
	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)	(Unaudited)
Turnover	364,339	412,260	266,942	298,240
Cost of sales	(214,500)	(238,528)	(159,444)	(174,706)
Gross profit	149,839	173,732	107,498	123,534
Profit for the year/period	49,718	72,492	39,495	50,728
Profit for the year/period attributable to equity shareholders of the company	<u>46,279</u>	<u>60,338</u>	<u>32,810</u>	<u>41,896</u>

SELECTED INFORMATION FROM COMBINED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		As at 30 September
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)
Non-current assets	85,774	103,636	111,126
Current assets	331,882	392,986	454,505
Current liabilities	144,471	151,157	286,370
Net current assets	187,411	241,829	168,135
Net assets	273,185	345,465	279,261

SUMMARY

SELECTED INFORMATION FROM COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		Nine months ended 30 September	
	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	32,442	20,085	(15,968)	(65,895)
Net cash (used in)/generated from investing activities	(9,319)	(8,196)	(9,159)	2,691
Net cash (used in)/generated from financing activities	(17,363)	(7,261)	(13,929)	19,506
Net increase/(decrease) in cash and cash equivalents	5,760	4,628	(39,056)	(43,698)
Cash and cash equivalents at 1 January	57,049	62,798	62,798	67,407
Effect of foreign exchange rate changes	(11)	(19)	(14)	4
Cash and cash equivalents at 31 December/30 September	62,798	67,407	23,728	23,713

KEY FINANCIAL RATIOS

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

	As at 31 December		As at 30 September
	2012	2013	2014
Current ratio	2.3	2.6	1.6
Quick ratio	1.6	1.9	1.1
Net debt-to-equity ratio	N/A ⁽¹⁾	N/A ⁽¹⁾	6.7%
Gearing ratio	14.3%	9.2%	18.7%

Note:

1. Not applicable as we had net cash as at 31 December 2012 and 2013.

SUMMARY

	Year ended 31 December		Nine months ended
			30 September
	2012	2013	2014
Gross profit margin	41.1%	42.1%	41.4%
Net profit margin	13.6%	17.6%	17.0%
Return on equity	18.2%	21.0%	18.2%
Return on assets	11.9%	14.6%	9.0%
Average inventory turnover days (days)	155	152	186
Average trade and bills receivables turnover days (days)	125	153	215
Average trade and bills payables turnover days (days)	88	109	107

Please refer to the sections headed “Financial Information – Key Financial Ratios” and “Discussion of Key Items From the Combined Statements of Financial Position” of this document for descriptions of the calculations of the above ratios and turnover days.

OFFER STATISTICS⁽¹⁾

	Based on minimum indicative [REDACTED] of [REDACTED]	Based on maximum indicative [REDACTED] of [REDACTED]
Market capitalisation of our Company ⁽²⁾	HK\$[1,032] million	HK\$[1,248] million
Unaudited pro forma adjusted combined net tangible assets per Share ⁽³⁾	HK\$[REDACTED]	HK\$[REDACTED]

Notes:

- (1) All statistics in this table are on the assumption that the [REDACTED] is not exercised.
- (2) The calculation of market capitalisation is based on [REDACTED] Shares expected to be in issue immediately after completion of the [REDACTED], the Capitalisation Issue and the Capitalisation of the Loans and taking no account of any Shares which may be issued pursuant to the exercise of the [REDACTED].
- (3) The unaudited pro forma adjusted combined net tangible assets value per Share is calculated after making the adjustments referred to in Appendix II and based on [REDACTED] Shares expected to be in issue immediately after completion of the [REDACTED], the Capitalisation Issue and the Capitalisation of the Loans and taking no account of any Shares which may be issued pursuant to the exercise of the [REDACTED].

SUMMARY

FUTURE PLANS AND USE OF PROCEEDS

We estimate that the aggregate net proceeds from the [REDACTED] (after deducting underwriting fees and estimated expenses payable by us in connection with the [REDACTED]), assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the proposed [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per Share, will be approximately HK\$[REDACTED] million.

We currently intend to apply the net proceeds for the following purposes:

- approximately [REDACTED] or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) will be used to finance the expansion of our manufacturing facilities to increase our production capacity to over 80 units of asphalt mixing plants per year, of which:
 - approximately [REDACTED] or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) will be used for the acquisition of land;
 - approximately [REDACTED] or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) will be used to finance the development and construction of the manufacturing facilities; and
 - approximately [REDACTED] or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) will be used for the purchase of equipment for the manufacturing facilities;
- approximately [REDACTED] or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) will be used to fund our research and development activities, including the upgrades on computer software and hardware and investment in research and development projects;
- approximately [REDACTED] or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) will be used to finance the development of our new businesses, including the manufacture of components of asphalt mixing plants and asphalt mixtures for sale;
- approximately [REDACTED] or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) will be used to fund (i) the expansion of our sales and distribution networks, including increasing the head counts of our sales personnel and setting up overseas service centres; and (ii) our promotional activities;
- approximately [REDACTED] or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) will be used for working capital and other general corporate purposes.

To the extent that the net proceeds from the [REDACTED] are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and bank financing. We currently believe that the net proceeds from the [REDACTED], when combined with such alternate sources of financing, are sufficient for the uses set forth above.

SUMMARY

Please refer to the sections headed “Future plans and use of proceeds – Proposed use of net proceeds from the [REDACTED]” and “Business – Business Strategies” of this document for further details.

DIVIDEND POLICY

During the Track Record Period, we have not declared any dividends. The recommendation of the payment of dividend is subject to the absolute discretion of our Board, and after the Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders.

Our future dividend policy will be determined by our Board based on our results of operations, cash flows, financial position, cash dividends we receive from our subsidiaries, future business prospects, statutory and regulatory restrictions on the payment of dividends by us, and other factors that our Board may consider relevant.

SUMMARY OF MATERIAL RISK FACTORS

There are risks associated with our business and investment in the [REDACTED], including (i) we may not be able to maintain our historical growth rates or profit margins, and our results of operations may fluctuate significantly; (ii) if investment in infrastructure and road construction and maintenance in the PRC declines or that there are changes in PRC laws, regulations or policies, our business, financial conditions, results of operations and growth may be materially and adversely affected; (iii) our success depends on the market recognition of our brand and we could be adversely affected by negative publicity; (iv) if we fail to implement our international growth strategy, our business, financial condition and results of operations may be materially and adversely affected; (v) if we are unable to implement our expansion plans successfully or we fail to manage our expansion strategies successfully, our business, financial condition, results of operations and future growth may be adversely affected; and (vi) if we are unable to collect trade receivables in a timely manner, we would have to record impairment losses and our financial condition and results of operations may be adversely affected. You should read the entire section headed “Risk Factors” in this document carefully before you decide to invest in the [REDACTED].

SUMMARY OF NON-COMPLIANCE INCIDENTS

During the Track Record Period, we had not fully complied with certain laws and regulations in respect of contribution to certain staff benefit fund in respect of social insurance and housing provident fund. All such non-compliance incidents have not resulted, and are not expected to result, in any material impact on our financial and operational aspects.

Please refer to the section headed “Business – Legal proceedings and compliance” of this document for detailed information of these non-compliance incidents.

SUMMARY

BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

The U.S., the E.U., Australia and the U.N. have economic sanctions targeting certain Sanctioned Countries. We had past product sales connected with certain of the Sanctioned Countries, namely Libya and Russia during the Track Record Period and we still carry out such business activities connected with these Sanctioned Countries.

As advised by Minter Ellison and Norton Rose Fulbright LLP, our legal advisers as to international sanction laws, our historical sales to the Sanctioned Countries or the entering into of sale and purchase contracts with customers in the Sanctioned Countries during the Track Record Period do not implicate the applicability of the relevant sanction laws on our Group, our Directors or any person or entity, including the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors and we have not been notified that any sanction would be imposed on us. We do not expect any material increase in our revenue from product sales to the Sanctioned Countries upon Listing. We will continue to evaluate and monitor our existing and ongoing business in the Sanctioned Countries in order to control our exposure to sanction risks.

Please refer to the section headed “Business – Business activities in Sanctioned Countries” of this document for details of our past product sales to the Sanctioned Countries and our undertakings to the Stock Exchange in respect of future business activities in the Sanctioned Countries.

RECENT DEVELOPMENT

Our business model, revenue structure and cost structure have remained largely unchanged since 30 September 2014.

Based on our unaudited management accounts for the eleven months ended 30 November 2014, our revenue amounted to approximately RMB417.2 million, representing an approximately 39.9% increase compared to the nine months ended 30 September 2014. The increase in revenue was mainly due to an increase in the revenue from the sales of asphalt mixing plants, which is in line with the increase in revenue in the same period in 2013. Our gross profit margin for the eleven months ended 30 November 2014 remained stable at approximately 41.6%, compared to that for the nine months ended 30 September 2014.

There has been no material fluctuation to our net current assets, current assets and current liabilities as at 30 November 2014. Our inventories decreased by approximately RMB26.0 million from approximately RMB134.2 million as at 30 September 2014 to approximately RMB108.2 million as at 30 November 2014, mainly due to the completion of customer acceptance in November 2014 of two asphalt mixing plants delivered before 30 September 2014, which resulted in the recognition of revenue in November 2014, and transfer of the inventories to cost of sales accordingly. Our trade and other receivables increased by approximately RMB42.4 million from approximately RMB286.9 million as at 30 September 2014 to approximately RMB329.3 million as at 30 November 2014, mainly due to an increase in sales in October and November 2014. Our cash and cash equivalents decreased by approximately RMB7.5 million from approximately RMB23.7 million as at 30 September 2014 to approximately RMB16.2 million, mainly due to the settlement of our trade payables in October and November 2014. As at 30 November 2014, our loans and borrowings increased further to approximately RMB170.2 million mainly due to the Prima DG Shareholder’s Loan and HK\$1.4M

SUMMARY

Loan incurred in the course of the Reorganisation. Please refer to the section 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” for details of such loans. Our trade and other payables decreased from approximately RMB227.5 million as at 30 September 2014 to approximately RMB121.6 million as at 30 November 2014, mainly due to the settlement of the payables related to acquisition of non-controlling interests in the amount of approximately RMB115.9 million on 25 November 2014.

LISTING EXPENSES

We incurred approximately RMB3.7 million of listing expenses during the Track Record Period, among which RMB0.9 million was recorded as prepayments and RMB2.8 million was recorded as expenses. We expect to incur approximately an additional RMB27.9 million listing expenses after the Track Record Period, of which approximately RMB14.3 million will be recognised as expenses in the consolidated statements of profit or loss and other comprehensive income for the three months ended 31 December 2014 and 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 30 September 2014 and no event has occurred since 30 September 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.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Anxin LP”	Tianjin Anxin Equity Investment Fund Partnership Enterprise (Limited Partnership)* (天津安興股權投資基金合夥企業(有限合夥)), a limited partnership established in the PRC on 30 July 2010, a private equity investor in the PRC and an Independent Third Party
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on [●] 2015 to take effect on the Listing Date, and as amended from time to time
“associate”	has the meaning ascribed thereto under the Listing Rules
“Balama Engineering”	Balama Prima Engineering Company Limited (百萊瑪工程有限公司), a limited liability company incorporated in Hong Kong on 1 August 1986 and held as to 40% by Mr. Choi, 20% by Ms. Tin, 20% by Mr. Derek Choi and 20% by Ms. Glendy Choi, respectively
“Beijing Branch Office of Langfang D&G”	Langfang D&G Machinery Technology Company Limited Beijing Branch Office* (廊坊德基機械科技有限公司北京分公司), a branch office of Langfang D&G established in the PRC on 12 December 2014
“Beijing D&G”	Beijing D&G Machinery Company Limited* (北京德基機械有限公司), a limited liability company established in the PRC on 5 February 1999; Beijing D&G was wholly-owned by Langfang D&G prior to 4 December 2014 and has been wholly-owned by Beijing Weilifei since 4 December 2014
“Beijing Weilifei”	Beijing Weilifei Technical Service Co. Ltd.* (北京威力菲技術服務有限公司), a wholly foreign owned enterprise established in the PRC on 14 December 1995 and held as to 40% by Mr. Choi, 20% by Ms. Tin, 20% by Mr. Derek Choi and 20% by Ms. Glendy Choi, respectively
“Board of Directors” or “Board”	the board of directors of our Company

DEFINITIONS

“BOCOM International (Asia)” or “Sole Sponsor”	BOCOM International (Asia) Limited, a licensed corporation under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
“[REDACTED]” or “Sole Global Coordinator”	[REDACTED]
“Boyongjin LP”	Ningbo Boyongjin Equity Investment Partnership Enterprise (Limited Partnership)* (寧波博湧金股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on 1 December 2010, a private equity investor in the PRC and an Independent Third Party
“Business Day”	any day (other than Saturday and Sunday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“BVI”	the British Virgin Islands
“BVI-Decai”	Decai Investment Holding Company Limited (德才投資控股有限公司), a limited liability company incorporated in the BVI on 1 August 2014 and wholly-owned by 34 PRC employees of our Group who are also Independent Third Parties. BVI-Decai is an Independent Third Party
“BVI-Denmike”	Denmike Investment Company Limited (丹麥投資有限公司), a limited liability company incorporated in the BVI on 1 August 2014 and wholly-owned by Mr. Lao Kam Chi (劉金枝), our executive Director
“BVI-DY”	DY Investment Holding Company Limited (德英投資控股有限公司), a limited liability company incorporated in the BVI on 1 August 2014 and wholly-owned by 43 PRC employees of our Group who are also Independent Third Parties. BVI-DY is an Independent Third Party
“BVI-Fair Silver”	Fair Silver International Ltd., a limited liability company incorporated in the BVI on 26 February 2014 and wholly-owned by Mr. Chan Hak (陳克), a director of Well Silver and the younger brother of Mr. Lewis Chan, our non-executive Director

DEFINITIONS

“BVI-Prima DG”	Prima DG Investment Holding Company Limited (翰名投資控股有限公司), a limited liability company incorporated in the BVI on 1 August 2014 and held as to 40%, 20%, 20% and 20% by the Choi Family Founders, respectively, one of our Controlling Shareholders
“BVI-Wonderful”	Wonderful Investment Holding Company Limited (穩德豐投資控股有限公司), a limited liability company incorporated in the BVI on 1 August 2014 and wholly-owned by Mr. Yu Ronghua (俞榮華), our executive Director
“BVI-Zacks Vroom”	Zacks Vroom Investment Company Limited (鴻豐隆投資有限公司), a limited liability company incorporated in the BVI on 1 August 2014 and wholly-owned by Mr. Liu Tom Jing-zhi (劉敬之), the son-in-law of the elder brother of Mr. Choi, our executive Director
“BW Enterprise”	BW Enterprise Company Limited (百威企業有限公司), a limited liability company incorporated in Hong Kong on 26 April 2006, an indirect wholly-owned subsidiary of our Company
“Capitalisation Issue”	the issue of [377,991,600] Shares to be made upon capitalisation of an amount of HK\$[3,779,916] standing to the credit of the share premium account of our Company referred to under “Further information about our Group – 3. Resolutions in writing passed by our Shareholders on [●] 2015” in Appendix IV to this document
“Capitalisation of the Loans”	the issue of Shares to be made upon capitalisation of the Prima DG Shareholder’s Loan, the HK\$1.4M Loan and the Diamond Strong Loan in full
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“CCID”	CCID Consulting Company Limited, an Independent Third Party, a PRC based professional market research and consulting firm listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8235)
“CCID Report”	the industry report prepared by CCID, the details of which are set out in the section headed “Industry Overview” in this document
“Choi Family Founders”	Mr. Choi, Ms. Tin, Mr. Derek Choi and Ms. Glendy Choi; and where the context so requires, in this particular order when referred to in this document
“close associate”	has the meaning ascribed to it under the Listing Rules
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	D&G Technology Holding Company Limited (德基科技控股有限公司), an exempted company incorporated on 11 September 2014 with limited liability under the laws of the Cayman Islands
“connected person”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and, in the context of this document, means the controlling shareholders of our Company immediately after the [REDACTED] and the Capitalisation Issue, being each member of the Choi Family Founders and BVI-Prima DG

DEFINITIONS

“Conventional Plant”	conventional hot-mix asphalt mixing plant
“core connected person”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated [●] 2015 executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the section headed “Statutory and General Information – Other Information – 18. Tax and Other indemnities” in this document
“Deed of Non-competition”	the deed of non-compete undertakings dated [●] 2015 executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the section headed “Relationship with Controlling Shareholders – Non-competition Undertakings” in this document
“Denmike”	Denmike Investment Co., Limited (丹麥投資有限公司), a limited liability company incorporated in Hong Kong on 21 January 2011, an indirect wholly-owned subsidiary of our Company
“DGHK”	Hong Kong D&G Machinery Company Limited (香港德基機械有限公司), a limited liability company incorporated in Hong Kong on 7 July 2014, an indirect wholly-owned subsidiary of our Company
“Diamond Strong”	Diamond Strong Limited (常剛有限公司), a limited liability company incorporated in Hong Kong on 10 December 1985 and held as to 40% by Mr. Choi, 20% by Ms. Tin, 20% by Mr. Derek Choi and 20% by Ms. Glendy Choi, respectively
“Diamond Strong Loan”	the interest-free on-demand shareholder’s loan in the amount of HK\$58,120,000 to be advanced by BVI-Prima DG to our Company in tranches on or before 31 January 2015;
“Director(s)”	the director(s) of our Company
“Exchangeable Bond”	the exchangeable bond in the aggregate principal amount of US\$8,000,000 issued by BVI-Prima DG to Regal Sky on 3 November 2014 pursuant to the Exchangeable Bond Subscription Agreement

DEFINITIONS

“Exchangeable Bond Subscription Agreement”	the exchangeable bond subscription agreement dated 27 October 2014 (as amended by a supplemental agreement dated 31 December, 2014) entered into among the Controlling Shareholders and Regal Sky pursuant to which BVI-Prima DG agreed to issue and Regal Sky agreed to subscribe for the Exchangeable Bond
“E.U.”	the European Union
“Euro” or “€” or “EUR”	the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992)
“GDP”	gross domestic product
“[REDACTED]”	[REDACTED]
“Group”, “our Group”, “we”, “us” or “our”	our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the business carried on by such subsidiaries or (as the case may be) their predecessors
“HKFRSs”	Hong Kong Financial Reporting Standards
“HK\$1.4M Loan”	the interest-free on-demand shareholder’s loan in the amount of HK\$1,400,000 advanced by BVI-Prima DG to our Company on 20 November 2014
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies”	BW Enterprise, Zacks Vroom, Well Silver and Denmike; and where the context so requires, in this particular order when referred to in this document
“Hong Kong dollars”, “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

[REDACTED]	[REDACTED]
“Hong Kong Share Registrar”	[REDACTED]
“Hong Kong Underwriters”	the several underwriters of the Hong Kong [REDACTED] listed in the section titled “Underwriting – Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated [●] 2015 relating to the [REDACTED] entered into among us, our Controlling Shareholders and the Hong Kong Underwriters
“IFRS”	International Financial Reporting Standards
“Independent Third Party(ies)”	a party which is not connected (as defined in the Listing Rules) to the directors, substantial shareholders or chief executive of our Company or our subsidiaries and their respective associates
“insignificant subsidiary”	has the meaning ascribed to it under the Listing Rules
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“International Underwriters”	the several underwriters of the [REDACTED] expected to enter into the International Underwriting Agreement to underwrite the [REDACTED]
“International Underwriting Agreement”	the International Underwriting Agreement relating to the [REDACTED] and to be entered into among us and the International Underwriters on or about the [REDACTED]
“Joint Bookrunners” or “Joint Lead Managers”	[REDACTED]
“Langfang D&G”	Langfang D&G Machinery Technology Co., Ltd* (廊坊德基機械科技有限公司), a limited liability company established in the PRC on 21 August 2006, an indirect wholly-owned subsidiary of our Company, formerly known as Langfang D&G Machinery Technology Co., Ltd.* (廊坊德基機械科技股份有限公司), a joint stock limited liability company, from 30 June 2011 to 23 November 2014, and as Langfang D&G Machinery Co., Ltd.* (廊坊德基機械有限公司), a limited liability company, prior to 30 June 2011

DEFINITIONS

“Langfang Decai”	Langfang Decai Investment Consulting Company Limited* (廊坊德才投資諮詢有限公司), a limited liability company established in the PRC on 30 January 2011 and wholly-owned by 34 PRC employees of the Group who are Independent Third Parties; Langfang Decai is an Independent Third Party
“Langfang Deying”	Langfang Deying Investment Consulting Company Limited* (廊坊德英投資諮詢有限公司), a limited liability company established in the PRC on 30 January 2011 and wholly-owned by 43 PRC employees of the Group who are Independent Third Parties; Langfang Deying is an Independent Third Party
“Latest Practicable Date”	[31 December] 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date on which dealings in our Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Macao”	the Macao Special Administrative Region of the PRC
“Main Board”	the stock market operated by the Stock Exchange, which excludes the Growth Enterprise Market of the Stock Exchange and the options market
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company, adopted on [●] 2015 and as amended from time to time
“MOFCOM”	the Ministry of Commerce of the PRC
“Mr. Choi”	Mr. Choi Hung Nang (蔡鴻能), our Chairman and executive Director and a Controlling Shareholder

DEFINITIONS

“Mr. Derek Choi”	Mr. Choi Hon Ting, Derek (蔡翰霆), formerly known as Mr. Choi Kwan Wai, Derek (蔡群威), son of Mr. Choi and Ms. Tin, our executive Director and a Controlling Shareholder
“Mr. Lewis Chan”	Mr. Chan Lewis (陳令紘), formerly known as Mr. Chan Yeung (陳氫), our non-executive Director and the elder brother of Mr. Chan Hak, the sole director of Well Silver
“Ms. Glendy Choi”	Ms. Choi Kwan Li, Glendy (蔡群力), daughter of Mr. Choi and Ms. Tin, our executive Director and a Controlling Shareholder
“Ms. Tin”	Ms. Tin Suen Chu (田碇珠), spouse of Mr. Choi, the mother of Mr. Derek Choi and Ms. Glendy Choi and, a Controlling Shareholder
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“OFAC”	the United States Department of Treasury’s Office of Foreign Assets Control
[REDACTED]	[REDACTED]
“Offshore Employee Holding Entities”	BVI-DY, BVI-Decai and BVI-Wonderful; and where the context so requires, in this particular order when referred to in this document
[REDACTED]	[REDACTED]
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of China
“Ping’an Caizhi”	Ping’an Caizhi Investment Management Company Limited* (平安財智投資管理有限公司), a limited liability company established in the PRC on 26 September 2008, a private equity investor in the PRC and an Independent Third Party
“PRC” or “China”	the People’s Republic of China and, except where the context requires and only for the purpose of this document, references in this document to the PRC or China do not include Taiwan, Hong Kong or Macao

DEFINITIONS

“PRC Employee Holding Entities”	Wendefeng LP, Langfang Deying and Langfang Decai; and where the context so requires, in this particular order when referred to in this document
“PRC Government”	the central government of China and its political subdivisions, including provincial, municipal and other regional or local government bodies or, as the context requires, any of them
“PRC Legal Adviser”	Chen & Co. Law Firm, the legal adviser to our Company as to PRC law
“PRC PE Investors”	Ping’an Caizhi, Boyongjin LP, Zhongshen LP, Shengbang Huimin and Anxin LP; and where the context so requires, in this particular order when referred to in this document
[REDACTED]	[REDACTED]
“Prima DG Shareholder’s Loan”	the interest-free on-demand shareholder’s loan in the amount of HK\$146,342,100.93 advanced by BVI-Prima DG to our Company in eight tranches between 10 October 2014 and 25 November 2014, respectively
“Recycling Plant”	hot-mix asphalt mixing recycling plant
“Regal Sky”	Regal Sky Holdings Limited, a company incorporated in the BVI on 20 May 2014, an investment holding company and an Independent Third Party
“Regal Sky Loan”	the interest-free loan in the amount of US\$5,000,000 advanced by Regal Sky to BVI-Prima DG on 1 November 2014
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation of the business comprising our Group, as described in the section headed “History, Reorganisation and Corporate Structure – Reorganisation” in this document
“Rich Benefit”	Rich Benefit International Limited (萬利國際有限公司), a limited liability company incorporated in the BVI on 23 May 2014, a direct wholly-owned subsidiary of our Company
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC

DEFINITIONS

“SAFE”	the State Administration of Foreign Exchange of the PRC
“Sanctioned Countries”	countries which are the targets of economic sanctions as administered by the OFAC, under the laws of other countries and under international law, such as Libya and Russia
“Sanctioned Persons”	certain persons and entities listed on OFAC’s Specially Designated Nationals and Blocked Person List or other restricted parties lists maintained by the E.U., Australia or the U.N.
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares issued by our Company, with a nominal value of HK\$0.01 each
“Share Option Scheme”	the share option scheme conditionally approved by our Company on [●] 2015, the principal terms of which are summarised under the section headed “Other Information – 16. Share Option Scheme” in Appendix IV to this document
“Shareholder(s)”	holder(s) of our Shares
“Shengbang Huimin”	Beijing Shengbang Huimin Venture Investment Company Limited* (北京盛邦惠民創業投資有限責任公司), a limited liability company established in the PRC on 25 May 2009, a private equity investor in the PRC and an Independent Third Party
“Shenzhen D&G”	Shenzhen D&G Machinery Company Limited* (深圳德基機械有限公司), a limited liability company established in the PRC on 2 April 2003 and deregistered on 30 September 2014
“sq.m.”	square metre(s)
“[REDACTED]”	[REDACTED]
“[REDACTED]”	[REDACTED]

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in section 2 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance
“substantial shareholder”	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any of our general meetings
“Takeover Code”	the Codes on Takeovers and Merges and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Tianjin D&G”	Tianjin D&G Machinery Equipment Leasing Company Limited* (天津德基機械設備租賃有限公司), a limited liability company established in the PRC on 27 August 2010, an indirect wholly-owned subsidiary of our Company
“Track Record Period”	the two years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014
“Twelfth Five-Year Plan”	a series of economic development initiatives established by the PRC government for the five years from 2011 to 2015 (《中華人民共和國國民經濟和社會發展十二五規劃綱要》)
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.N.”	the United Nations
“UNSC”	the United Nations Security Council
“United States” or “U.S.”	the United States of America
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

DEFINITIONS

“Well Silver”	Well Silver Corporation Limited (銀佳興業有限公司), a limited liability company incorporated in Hong Kong on 22 July 2010, an indirect wholly-owned subsidiary of our Company
“Wendefeng LP”	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)), a limited partnership established in the PRC on 25 January 2011. It is held as to 99.5% and 0.5% by Yu Ronghua (俞榮華), our executive Director, and Liu Dan (劉旦), an Independent Third Party, respectively
[REDACTED]	
“Zacks Vroom”	Zacks Vroom Investment Co., Limited (鴻豐隆投資有限公司), a limited liability company incorporated in Hong Kong on 20 January 2011, an indirect wholly-owned subsidiary of our Company
“Zhongshen LP”	Shanghai Zhongshen High-tech Equipment Investment Centre (Limited Partnership)* (上海中甚高技術裝備投資中心(有限合夥)), a limited partnership established in the PRC on 24 March 2011, a private equity investor in the PRC and an Independent Third Party
“%”	per cent

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this document and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities are provided for identification purposes only and are marked with “*”.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations and definitions of certain terms used in this listing document in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“2000 model series or below”	asphalt mixing plants with production capacity of 199 tonnes per hour or less and mixing capacity of 2,000 kilograms per tank or less
“3000 model series”	asphalt mixing plants with production capacity between 200 to 240 tonnes per hour and mixing capacity between 2,500 to 3,000 kilograms per tank
“4000 model series”	asphalt mixing plants with production capacity of 320 tonnes per hour and mixing capacity of 4,000 kilograms per tank
“5000 model series”	asphalt mixing plants with production capacity of 400 tonnes per hour and mixing capacity of 5,000 kilograms per tank
“aggregates”	materials used in road construction and maintenance usually consisting of sand, gravel and crushed stones
“asphalt” or “bitumen”	a black viscous liquid or semi-solid obtained naturally from deposits or as a residue from petroleum distillation and used for road or pavement surfacing as glue for aggregates
“asphalt mixture”	composed of bitumen, aggregates and fillers, and used for constructing and maintaining pavements and roads
“CAGR”	Compound annual growth rate

GLOSSARY OF TECHNICAL TERMS

“CE mark”	The CE marking indicates a product’s compliance with E.U. legislation and so enables the free movement of products within the European market. CE marking does not indicate that a product was made in the European Economic Area, but merely states that the product has been assessed before being placed on the market and thus satisfies the applicable legislative requirements (e.g. a harmonised level of safety) enabling it to be sold there. It means that the manufacturer has: (i) verified that the product complies with all relevant essential requirements (e.g. health and safety or environmental requirements) laid down in the applicable directives; and (ii) if stipulated in the directives, had it examined by an independent conformity assessment body
“dB” or “decibel”	means a logarithmic unit that indicates the ratio of a physical quantity (usually power or intensity) relative to a specified or implied reference level, widely used in the measurement of sound
“expressway”	road used exclusively for multi-lane high speed transportation of motor vehicles with all controlled exits with an average daily traffic of more than 25,000 passenger vehicles
“filler”	an inert material added to other substances to modify their properties
“first grade highway”	multi-lane road with ability to control exits as necessary with an average daily traffic ranging from 15,000 to 55,000 passenger vehicles
“fourth grade highway”	road connecting county- or town-level regions normally equipped with one lane with an average daily traffic of less than 200 heavy duty vehicles
“GDP”	Gross domestic product
“GFA”	gross floor area
“km”	kilometre
“mg/Nm ³ ”	milligrams per normal cubic metre

GLOSSARY OF TECHNICAL TERMS

“non-graded highway”	highways other than expressways, first grade highways, second grade highways, third grade highways and fourth grade highways
“RAP”	reclaimed asphalt pavement, is the term given to removed and/or reprocessed pavement materials containing asphalt and aggregates. These materials are generated when asphalt pavements are removed for reconstruction or maintenance
“Ringelmann level 1”	level 1 on the Ringelmann smoke chart developed by Professor Maximilian Ringelmann used to determine the density of smoke
“second grade highway”	double-lane road with no separation in the middle with a designed speed limit of approximately 60 to 80 km per hour
“third grade highway”	double-lane road connecting county-or-above-level cities, suitable for all vehicles with an average daily traffic of less than 2,000 medium-sized heavy duty vehicles
“urban road”	roads within the urban planning areas in the PRC

RISK FACTORS

Potential investors should consider carefully all information set out in this document and, in particular, should consider and evaluate the following risks associated with an investment in the Company before making any investment decision in relation to our Shares. The [REDACTED] of our Shares may decline due to any of these risks and you may lose all or part of your investment as a result.

In addition to the risk factors described below, other risks and uncertainties not presently known to us, or not expressed or implied below, or that we currently deemed immaterial, may also adversely affect our business, operating results and financial condition in a material respect and the [REDACTED] of the [REDACTED] could also fall considerably.

RISKS RELATING TO OUR BUSINESS

We may not be able to maintain our historical growth rates or profit margins, and our results of operations may fluctuate significantly.

During the Track Record Period, we have been experiencing steady growth by having a steady increase in revenue. For the years ended 31 December 2012 and 2013, our revenue amounted to approximately RMB364.3 million and RMB412.3 million, respectively, representing a year-on-year growth of approximately 13.2%. For the nine months ended 30 September 2013 and 2014, our revenue amounted to approximately RMB266.9 million and RMB298.2 million, representing a growth of approximately 11.7%. For a variety of reasons, we may not be able to expand our business at a rate comparable to our historical performance. Our growth rate and profit margin could be hampered by an economic downturn, fierce competition, change in regulations and government policies, failure to catch up with technology developments, shortage of key or specialised personnel or other risks described in this section.

If investment in infrastructure and road construction and maintenance in the PRC declines or that there are changes in the PRC laws, regulations or policies, our business, financial conditions, results of operations and growth may be materially and adversely affected.

We generate a substantial portion of our revenue in the PRC. The percentage of total revenue from the sale of asphalt mixing plants generated in the PRC for PRC road construction or maintenance projects for the years ended 31 December 2012 and 2013 and nine months ended 30 September 2014, was approximately 78.1%, 77.2% and 87.0% 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 maintenance work declines, this could lead to less than expected business and construction activity nationwide, or if there are 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.

RISK FACTORS

Our success depends on the market recognition of our brand and we could be adversely affected by negative publicity.

We rely heavily on the market recognition of our “D&G” brand. We have a well-established operating history and strong brand recognition. We believe that business growth in our services and products depends heavily on the public perception of our brand and we anticipate that we will continue to rely on our brand in our future business. If we fail to promote our brand or to maintain or enhance the brand recognition and awareness amongst our customers, or if we are subject to events or negative allegations affecting our brand image or publicly perceived position of our brand, our business, our operating results and our financial condition could be adversely affected.

If we fail to implement our overseas growth strategy, our business, financial condition and results of operations may be materially and adversely affected.

As part of our expansion strategy, we plan to increase our revenues in the overseas market by increasing the sales of our asphalt mixing plants and related services to customers in overseas markets such as India, Southeast Asia and Middle East countries, which have strong demands for asphalt mixing plants. During the Track Record Period, we have sold our products directly to our overseas customers and we have sold our products to customers in the PRC who has undertaken road construction and maintenance projects in overseas countries. For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, the sales of our products to overseas markets (including direct or indirect export) represented approximately 21.9%, 22.8% and 13.0% of our total revenue from the sales of asphalt mixing plants, respectively.

Our global expansion plans and exposure to the overseas markets exposes us to a number of risks, including, among other things:

- imposition of currency restrictions, restrictions on repatriation of earnings or other restraints;
- imposition of tariffs, trade sanctions or other trade barriers;
- potential credit risk with respect to our customers in certain overseas markets;
- challenges in providing customer services and support in these markets;
- challenges in managing our distribution network overseas and our overseas sales channels effectively;
- difficulties in registering, maintaining or enforcing intellectual property rights;
- political and economic instability or civil unrest;
- decrease in investment in road construction in overseas markets; and
- slower than expected global economic growth and unfavorable macroeconomic conditions.

RISK FACTORS

If we fail to avoid or mitigate these risks, our global expansion strategy will be negatively affected, which could adversely affect our business, financial condition, results of operations and prospects.

If we are unable to implement our expansion plans successfully or we fail to manage our expansion strategies successfully, our business, financial condition, results of operations and future growth may be adversely affected.

Our future success depends on our ability to implement our expansion plans. While we have conducted feasibility studies of our expansion plans, we cannot guarantee that our business strategies will be successful. Our key strategies include expanding our production capacity to meet demand for our products, enhancing our research and development capabilities, continuing to promote our hot-mix asphalt mixing recycling plant and other new products with recycling features, expanding our sales networks within the PRC and globally, and continuing to broaden our product offerings and development of new businesses.

The utilisation rate of our production capacity for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, was approximately 98.0%, 106.0% and 104.0% 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 capacity. Additionally, we may not be able to achieve the optimum economies of scale in our operations in a manner that allows us to minimise costs and remain competitive in the market. If we are unable to deliver high quality products to our customers in a timely manner, our reputation and brand name will be affected. Our customers may also require us to compensate them for their losses incurred as a result of being unable to deliver our products on time.

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. As a result, we have invested considerable capital into our research and development activities. For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, our research and development expenses amounted to approximately RMB13.4 million, RMB13.9 million and RMB5.8 million, respectively. For the nine months ended 30 September 2014, we also capitalised research and development expenditures incurred on new model of plant as inventory in the amount of approximately RMB5.6 million.

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.

RISK FACTORS

While we are making efforts to increase our production capacity, we cannot be certain that we will be able to do so or the demand for our products will continue to increase or remain at the current levels. Please see the paragraph headed “If investment in infrastructure and road construction and maintenance in the PRC declines or that there have been changes in the PRC laws, regulations or policies, our business, financial conditions, results of operations and growth may be materially and adversely affected.” in this section for further details.

Failure to manage our expansion, manage additional funds which have been raised, or execute growth strategies could adversely affect our business, results of operations, financial condition, cash flows, and prospects. Our investors’ return on equity may also be adversely affected as a result. If, due to unforeseen factors, there is insufficient funding, we may be required to forgo some of our expansion plans, issue more shares which may dilute our investors’ shareholding, or seek debt financing which may not be available on commercially reasonable terms, which may also adversely affect our investors’ return on equity.

If we are unable to collect trade receivables in a timely manner, we would have to record impairment losses and our financial condition and results of operations may be adversely affected.

We may not be able to collect our trade and bills receivables in a timely manner and some of our customers may delay payment of the outstanding balances after due dates due to various reasons beyond our control, such as slow settlement of government funding for PRC road construction or maintenance projects that our customers participated in. As at 31 December 2012, 2013 and 30 September 2014, our trade receivables that were past due but not impaired amounted to approximately RMB35.8 million, RMB93.2 million and RMB86.3 million, respectively, of which approximately RMB2.1 million, RMB4.4 million and RMB7.3 million, respectively, were past due over 12 months, representing approximately 5.8%, 4.7% and 8.4% of the trade receivables that were past due but not impaired. Our average trade and bills receivables turnover days also increased from 125 days as at 31 December 2012 to 153 days as at 31 December 2013, and to 215 days as at 30 September 2014 during the Track Record Period.

Moreover, our trade receivable impairment losses recognised during the Track Record Period amounted to approximately RMB4.4 million, RMB10.4 million and RMB3.6 million, respectively. There is no assurance that impairment losses will not continue to occur in the future even we have from time to time enhanced our credit control and collection policies to minimise the credit risk. If any further amount of trade and bills receivables is considered to be uncollectible, impairment will be made accordingly. As a result, our financial condition and results of operations will be materially and adversely affected.

If we fail to maintain our relationships with our distributors, our business, results of operations and financial condition may be materially and adversely affected.

We sell our products and services through our internal sales teams and external distributors. Approximately 29.2%, 23.4% and 32.0% of our revenue from the sales of asphalt mixing plants was generated from the sales of our products to a distributor directly or to customers through our distributors acting as sale agents during the Track Record Period, respectively. Our ability to reach existing and potential customers depends partially on our relationships with distributors, particularly in the overseas market. If we fail to maintain or strengthen our relationships with our distributors, our business, results of operations and financial condition may be adversely affected.

RISK FACTORS

Further, if we do not adequately manage our distributors, our distributors may fail to provide adequate training and services to our customers, violate anti-corruption laws in the PRC or abroad, or use or permit the unauthorised use of our brand name. As a result, our reputation and brand name may be damaged, and our sales may be materially and adversely affected. Additionally, if our distributors engage in illegal activities, or if they breach their contractual agreements with us, our corporate image may be harmed, our sales volume may decrease, and the sustainability of our business would be negatively impacted. We place considerable reliance on third party distributors to reach our customers, yet our ability to control such third party distributors is limited. There is no assurance that our third party distributors will comply with their agreements with us or that they will abstain from illegal activities.

Any fluctuation in the local currencies of our overseas customers against US dollars or Euros may result in delay or default of payments by our overseas customers to us.

During the Track Record Period, we generated approximately 14.2%, 14.1% and 4.9% 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 dollar or Euro, 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. During the Track Record Period, our direct export sales to Russian customers accounted for approximately 9.9%, 10.2% and 2.9% of our total revenue, respectively. As at 30 September 2014, our trade receivables from those Russian customers accounted for approximately 2.6% of our total trade and bills receivables. The recent depreciation of the Russian currency, Ruble, against US dollars and Euros recently means that our Russian customers would need to use more Rubles to exchange into the same amount of US dollars or Euros to pay us. If the Russian customers do not have sufficient Ruble 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.

We may be unable to maintain effective quality control.

The performance, quality and safety of our products are critical to our business and development. Although we have established and currently maintain stringent quality control standards and internal inspection procedures, the effectiveness of our quality control system is determined by various factors, including the implementation of quality standards, quality of training programs and the adherence by our employees to our quality control policies and guidelines.

In addition, our production output is highly dependent upon our quality control system and reliable and sufficient sources of high quality raw materials, parts and components. While we are able to produce the core parts and components for our products, our customers from time to time will request that we procure certain non-key parts, components and other ancillary materials for their customized products from a limited number of domestic or overseas suppliers. We cannot assure you that such parts, components and ancillary materials will be manufactured in accordance with our internal quality standards. Failure of such parts, components and ancillary materials to meet our internal quality standards may result in product defects in our finished product. In addition, we also outsource the manufacturing of certain non-key parts and components to selected

RISK FACTORS

domestic suppliers and we are primarily liable for product defects resulting from outsourced parts and components. We cannot assure you that we will not be subject to any claims related to product defects including product liability claims in the future. If any such claims were to arise, regardless of the merits or adjudication of such claims, we may incur significant costs and expenses to address such claims. In addition, addressing such claims could divert our management attention and resources. If any of the foregoing were to occur, our business, results of operations, financial condition and reputation could be materially and adversely affected.

We depend on a stable and adequate supply of raw materials, parts and components and we do not enter into any long-term agreements with our suppliers and our subcontractors, which exposes us to uncertainty and potential volatility with respect to our cost of raw materials, parts and components.

During our Track Record Period, our cost of raw materials, parts and components with respect to the sales of asphalt mixing plants accounted for approximately 78.1%, 74.7% and 77.7%, respectively, of our total cost of sales. As a result, our production volume and production costs depend on our ability to source quality materials at competitive prices. We do not usually enter into any long-term agreements with any suppliers and subcontractors for raw materials, parts and components nor have we entered into any hedging arrangements or transactions to reduce our exposure to fluctuations in the costs of raw materials, parts and components. If we experience an interruption, reduction or termination in supply of raw materials, parts and components from our suppliers and subcontractors, or an increase in the cost of raw materials, we may not be able to obtain the supply of raw materials, parts and components needed for the production of our products. 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 business, financial condition, results of operations and growth prospect may vary from period to period and may fluctuate significantly in the future.

Our production and operations may be affected by factors beyond our control.

Our manufacturing facilities are subject to numerous risks beyond our control, including, among others, equipment failures, earthquakes, fires, acts of terrorism, explosions, adverse weather conditions, accidents, power outages and other man-made or natural disasters. In addition, manufacturing processes for heavy machinery are inherently dangerous due to the complexity of the production environment, materials involved and human error in the operation of heavy manufacturing equipment. Although we have established a safety supervision department responsible for ensuring the safety and protection of our employees, we cannot assure you that serious accidents, physical injuries or fatalities will not occur.

Furthermore, members of our work force are currently employed under employment contracts which specify, among other things, each employee's position, responsibilities, remuneration and grounds for termination pursuant to PRC labour laws and other relevant regulations. However, PRC labour laws and other relevant regulations are subject to change, and we cannot assure you that any such change would not result in additional costs, restrictions or other requirements that would have an adverse effect on our business or results of operations. Although we believe that our relationships with our employees are good, we could be subject to employment disputes, strikes, work stoppages or other industrial actions.

RISK FACTORS

The occurrence of any of the foregoing could disrupt our production schedules and business operations. Interruptions in production could increase our costs and delay delivery of our products. In addition, reductions in our production capacity could cause us to reduce or delay sales efforts until production capacity is available. Furthermore, any lost sales or increased costs that we may experience during the disruption of our production process and business operations may not be recoverable under our insurance policies, and longer-term business disruptions could result in a loss of customers. If any of the foregoing were to occur, our business, results of operations, financial condition and profitability could be materially and adversely affected.

We provide our customers with various payment options, including finance lease services which are backed by an undertaking from us to re-purchase our products, which exposes us to additional risks and uncertainties.

We offer various payment options to our customers in order to boost the demand for our products. We currently offer a payment arrangement where we sell our products to finance leasing companies which then lease our products to the end-users by way of finance leases. The end-users then pay rent to the finance leasing companies in exchange for the use of the equipment. In connection with this arrangement, we provide the finance leasing companies with an undertaking or guarantee to re-purchase the plant and to pay for the amount of outstanding lease payments for the remaining period in certain cases of the finance lease if the end-user defaults on its rental payments. As at 31 December 2012, 2013 and 30 September 2014, our maximum exposure to such guarantee obligations amounted to approximately RMB18.0 million, RMB25.7 million and RMB42.8 million, respectively.

Even though we have not encountered any defaults from the end-users since we started to offer such payment option to our end-users, these finance leasing arrangements may still expose us to additional risks and uncertainties, including the credit risk of our customers, as we are unable to guarantee our end-users will not default on payments under the finance lease arrangements in the future.

Our exposure to the end-users credit risk may become more acute in times of an economic slowdown, which may result in an increased probability of the end-users defaulting on rental payments in connection with the finance lease contracts. In the event of such end-user defaults, the equipment which is the subject of the finance lease will have to be re-purchased by us. During a recession, the demand for used equipment may decrease and we may not be able to sell the re-purchased equipment at a fair market value, or worse, we may not even be able to sell the re-purchased equipment at all.

Non-renewal, revocation or suspension of permits, licenses and certificates required for our operations may materially and adversely affect our business, financial condition and results of operation.

We are required to obtain and maintain valid licenses, permits, certificates and other authorisations issued by various governmental authorities (including NDRC and MOFCOM) in order to carry out our business. For details of the relevant authorisations required, please refer to the section headed “Laws and Regulations” and the paragraph headed “Risk Factors – Risks Relating to Our Industry – If there are changes in the PRC government policies that are unfavorable to our industry, our growth prospects, business, financial condition and results of

RISK FACTORS

operations may be materially and adversely affected”. Further, we must comply with the conditions and restrictions imposed by the various government authorities to maintain our permits, licenses, certificates and other authorisations. Our PRC Legal Adviser has advised us that our Group has obtained all permits, licenses and certificates that are necessary for our current operations in the PRC.

The PRC governmental authorities (including NDRC and MOFCOM) may conduct special and routine inspections, audit, inquiries and examinations on us in order to ensure that we comply with the restrictions and conditions required for us to maintain our licenses, permits, certificates and other authorisations for our business operations. If we are found not to comply with the relevant licenses, permits, certificates or other authorisations issued by such PRC governmental authorities, our licenses, permits, certificates and other authorisations may be suspended or revoked, and we may be subject to fines or penalties, and may be required to suspend or cease part or all of our business operations. In addition, we cannot assure you that we will be able to maintain or renew, or renew in a timely manner, our existing licenses, permits, certificates or other authorisations which we require for our continued business operations. Our business operations, financial condition, results of operations and prospect and profits may be adversely affected as a result.

Our business depends on our ability to retain key personnel.

Our business and our historical success can substantially be attributed to the expertise and experience of our senior management and key employees. If any of the directors or the key management personnel cease to be involved in our management, our business and operations may be materially impaired. Our continued success depends on our ability to retain key personnel and to attract new talent. However, competition for recruiting suitable technical and professional personnel is intense, and we may need to offer higher compensation and more attractive benefits in order to attract and retain talent, which may adversely affect our financial condition and results of operations. In addition, the process of hiring and training qualified personnel is often costly in terms of time and money, and if our talent management is unsuccessful, qualified personnel may not be integrated into our workforce in a timely manner to meet our business needs.

We do not maintain key-man insurance for members of our senior management and key employees. If we are unable to find a replacement for our key personnel, our operations and business may be severely impaired or disrupted. Our senior management are subject to a non-competition term of two years. However, we cannot guarantee that the non-competition term is enforceable for the full two years or that such non-competition term is enforceable at all. In addition, if any of our key personnel joins a competitor or establishes a competing business, we may face the risk of losing our key customers and intellectual property and our business, finance condition and results of operations may be adversely affected.

Fluctuations in the price of raw materials, parts and components may affect our profitability.

Our ability to produce high quality products depends on reliable sources of large quantities of high quality raw materials, parts and components.

RISK FACTORS

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. In particular, the price of steel has been volatile in recent years. According to Bloomberg, the average spot price for China domestic hot rolled steel sheet was approximately RMB4,000, RMB3,700 and RMB3,400 in years ended 31 December 2012, 2013 and nine months ended 30 September 2014, respectively. We expect the volatility of steel prices to continue and here is no assurance that our suppliers and subcontractors will provide us with raw materials, parts and components at reasonable prices. If the price of our raw materials, parts and components increases in the future, or that we will not be able to pass on any increase in costs to our customers, our business, operations, financial condition and results of operations may be adversely affected.

We will be required to pay corporate income tax at a higher rate, and this will affect our profitability.

We are subject to various PRC taxes, including the current statutory PRC enterprise income tax of 25% as determined pursuant to the relevant PRC tax rules and regulations. We and some of our subsidiaries have in past years been taxed at preferential rates because of the nature of our business activities, the location of our projects or our status as a foreign invested enterprise. For example, our subsidiary, Langfang D&G, was recognised as a high-technology enterprise in Hebei and are thus entitled to a preferential PRC enterprise income tax rate of 15% for a period of three years from 2011 to 2013. We are in the process of renewing the high-technology enterprise qualification of Langfang D&G from 2014 to 2016.

We cannot assure you that we will always be able to obtain the renewal high-technology enterprise status or that the laws and regulations regarding the preferential tax treatment of high-technology enterprise will not change in the future. Any change or discontinuation in the preferential tax treatment that we currently enjoy will have a negative impact on our financial condition, business and results of operations.

Third parties may infringe upon our intellectual property rights, or we may be subject to claims of alleged infringement on the intellectual property rights of others.

Our focus on research and development enables us to stay competitive and is one of our key strengths. As at the Latest Practicable Date, we had (i) 29 registered patents in the PRC, of which 3 were invention patents and 26 were utility model patents; (ii) 5 patents pending registration in the PRC, of which 2 were invention patents, 3 were utility model patents; (iii) and 22 software copyrights in the PRC. In addition, Beijing D&G is in the midst of transferring 7 registered utility model patents to us. We have marketed our products under the brand name of “D&G”, which is a registered trademark in the PRC, Hong Kong and European Union. Further details of our intellectual property are set out in the paragraph headed “Further Information about the Business of our Group – 9. Intellectual property rights of our Group” in Appendix IV to this document.

RISK FACTORS

We rely on trademarks, patents, domain names and trade secret protection laws and confidentiality agreements with our employees, customers and other stakeholders to protect our intellectual property rights. Trade secrets such as product designs and product customisation are covered by confidentiality agreements as well.

Our intellectual property is exposed to theft and other forms of misappropriation. In particular, the legal protection to trademarks, patents, trade names, copyrighted materials, domain names, trade secrets, know-how and other forms of intellectual property in the PRC is limited and less effective as compared to many other countries. Preventing unauthorised use of our intellectual property is therefore difficult, time consuming and expensive, yet yielding limited and uncertain results. Misappropriation of our trademarks and other intellectual property could divert significant business to our competitors, damage our brand names and reputation, and may require us to initiate litigation that could be expensive, time consuming and require us to divert management resources from the operations of our business.

On the other hand, there is no assurance that infringement claims against us from third parties will not occur. We may be subject to legal proceedings and claims from time to time alleging infringement of copyrights, trademarks or patents, or misappropriation of creative ideas or formats, or other infringement of proprietary intellectual property rights. Any such claims, regardless of merit, may involve us in time consuming and costly litigation or investigation, divert significant management and staff resources, require us to enter into expensive royalty or licensing arrangements, prevent us from using important technologies, business methods, content or other intellectual property, result in monetary liability, prevent us from distributing our products through the use of injunctions or other legal means, or otherwise disrupt our operations. As at the Latest Practicable Date, our Directors were not aware of any claims or imminent claims against us alleging infringement of proprietary intellectual property rights.

We may incur significant losses resulting from product liability claims.

We may be exposed to the risk of third parties making product liability claims against us in relation to our products, and we may have to allocate financial and managerial resources to defend ourselves against such claims. We are also at risk of being sued for product liability in connection with parts or components that we obtained from third party suppliers and subcontractors and which we used in the production of our Conventional Plants and Recycling Plants. Since we do not maintain general product liability insurance, in the event that we are found liable in a product liability claim, we may be required to pay a substantial amount in compensation or damages and may suffer damage to our reputation.

We may not have adequate insurance coverage.

The commercial insurance products offered in the PRC do not provide as much coverage as those offered in other countries. We only obtain a limited amount of insurance coverage, and we may be exposed to the risk of uninsured financial or other losses, damages and liabilities, litigation costs, and losses arising from business or operation disruptions. Additionally, our insurance policy may not cover losses arising from natural disasters, adverse weather, power disruptions, war, terrorist attacks or other similar events that are out of our control. If our production and business operations are disrupted, we may incur material costs and losses that may materially and adversely affect our business, financial condition and results of our operations.

RISK FACTORS

Our sales may be affected by seasonality.

Our revenue may be affected by seasonal and weather conditions. Our revenue is typically highest during the months between May to October of each calendar year because there are more road construction activities when the weather is warm. Further, road construction projects often progress more slowly or are temporarily suspended during winter, in particular, during the Chinese New Year holidays. Additionally, road construction projects are also affected by adverse weather conditions like heavy rain or snow. As a result, our revenue may fluctuate between different periods within a financial year, or between the same periods in different financial years.

We could be adversely affected as a result of our operations in certain countries that are subject to evolving economic sanctions of the U.S. government, the UNSC, the E.U. and other relevant sanctions authorities.

The U.S. and other jurisdictions, including the E.U., Australia and the U.N., have comprehensive or broad economic sanctions targeting the Sanctioned Countries and Sanctioned Persons. During the Track Record Period, we had (i) entered into a sales and purchase contract with a customer in Libya for the sale of an asphalt mixing plant at a price of US\$0.5 million, of which no revenue had yet to be recorded within the Track Record Period; and (ii) product and parts and components sales in Russia, directly to our customers or indirectly through distributors acting as sales agents. Our revenue derived from these sales in aggregate accounted for approximately 9.9%, 10.2% and 6.6%, respectively, of our revenue for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014. As at the Latest Practicable Date, we still carry out such business activities connected with such Sanctioned Countries. For details of the business operations in the Sanctioned Countries, please see the section headed “Business – Business activities in the Sanctioned Countries”.

We have undertaken to the Stock Exchange that we will not use the proceeds from the [REDACTED], as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with any Sanctioned Country which are prohibited under international sanction laws and regulations or with any sanctioned person. We have also undertaken to the Stock Exchange that we will not enter into sanctionable transactions that would expose us or the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors to risks of being sanctioned. If we breach any of these undertakings to the Stock Exchange after the Listing, it is possible that the Stock Exchange may delist our Shares. In order to ensure our compliance with these undertakings to the Stock Exchange, we will continuously monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. For details of our internal control procedures, see “Business – Business Activities in Sanctioned Countries – Our undertakings and internal control procedures”.

As a Group with business operations in China, we will comply with all PRC laws and applicable laws in the jurisdictions where we have operations. We will also seek to prevent our transactions in relation to the Sanctioned Countries from being subject to sanctions under the laws of the U.S., the E.U., Australia, the U.N. or Hong Kong, and avoid carrying out business transactions with any Sanctioned Persons. However, to the extent such sanctions are imposed on our Company, our business and Shareholders’ interests may be materially and adversely affected.

RISK FACTORS

We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy by the E.U., Australia, the U.N. or other applicable jurisdictions with respect to any current or future activities by us or our affiliates in the Sanctioned Countries and/or with Sanctioned Persons. We have no present intention to undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors to violate or become a target of sanctions laws of the U.S., the E.U., Australia, the U.N. or Hong Kong. However, we can provide no assurance that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the U.S. authorities or the authorities of any other government that does not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the U.N., the government of the U.S., the E.U., Australia, UNSC or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Company. In addition, because many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable. In addition, certain U.S. state and local governments and universities have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain Sanctioned Countries. As a result, concern about potential legal or reputational risk associated with our historical and on-going operations in the Sanctioned Countries and/or with Sanctioned Persons could also reduce the marketability of the [REDACTED] to particular investors, which could affect the price of our [REDACTED] and Shareholders’ interests in us, despite our commitment not to direct the proceeds from the [REDACTED] to dealings with any parties subject to International Sanctions. Before investing in our Shares, you should consider if such investment would expose you to any of the U.S., the E.U. or other sanctions law risk arising from your nationality or residency. Any of these events could have an adverse effect on the value of your investment in us.

RISKS RELATING TO OUR INDUSTRY

If there are changes in the PRC government policies that are unfavourable to our industry, our growth prospects, business, financial condition and results of operations may be materially and adversely affected.

Our asphalt mixing plant business and related services are supported by PRC national policies. 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 “Twelfth Five-Year Plan for Transport (JGHF [2011] No. 191)”* the Transportation “Twelfth Five-year” Development Planning* (《交通運輸「十二五」發展規劃》), and in the light of the Supportive Field of National Major New Product Plan 2013* (《國家重點新品計劃支持領域—2013年》) issued by the Ministry of Science and Technology, and the Ministry of Transport released the Guidance on Promoting Road Pavement Material Recycling* (《交通運輸部關於加快推進公路路面材料循環利用工作的指導意見》) (the “**Guideline**”).

RISK FACTORS

However, the PRC Ministry of Commerce has 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)》) on 24 December 2011 (the “**Catalogue**”) such that foreign enterprise operating in the manufacturing of asphalt and concrete mixing and paving equipment now falls within the “limited” category even though it was previously in the “permitted” category in the Catalogue. In addition, according to the reply (serial number FaGaiBan [2012] 2636), issued by the National Development and Reform Commission on 14 September 2012, Langfang D&G has obtained approval to increase its production capacity from 50 units to 85 units of asphalt mixing plants per year and the additional 35 units approved should be Recycling Plants. The Recycling Plants projects undertaken by Langfang D&G falls within the “manufacturing of solid waste disposal equipment”, which is classified as Class 3. Article 18. Item 58. of “Encouraged” category in accordance with the Catalogue. During the TRP, we have manufactured and sold 41, 41 and 19 units of Conventional Plant for the years ended 31 December 2012 and 2013 and for the nine months ended 30 September 2014, respectively. Although we have been engaging in the business relating to the sale of asphalt mixing plants before the amendment to the Catalogue came into force and we are therefore not affected by such amendment, and even though our Recycling Plant business is supported by PRC national policies, we may face difficulties in carrying out or expanding our Conventional Plant business if it becomes difficult to obtain approval from the Development and Reform Commission to expand our production capacity.

In addition, we cannot fully predict the effect of future developments in the PRC legal system, or the extent and effect of implementation and enforcement of new laws. The PRC government has extensive powers and wide discretion in dealing with violations of its laws, including imposing fines, revoking business licenses or permits and requiring remedial actions for compliance with PRC law. If we are forced to restructure our business or undergo corporate restructuring as a result of changes in government policy on foreign investment or changes in the interpretation or application of PRC regulations or laws, our business, financial condition and results of operations may be adversely affected.

We face competition from existing and new domestic and international asphalt mixing plant manufacturers and service providers.

The competition in the PRC asphalt mixing plant manufacturing industry is intense. During the Track Record Period, we generated the majority of our revenue from the sales of medium to large scale asphalt mixing plants. Such revenue accounted for approximately 84.0%, 85.1% and 90.9%, of our total revenue from the sales of asphalt mixing plants, respectively. We also generated some revenue from sale of small scale asphalt mixing plants during the Track Record Period. Such revenue accounted for approximately 16.0%, 14.9% and 9.1%, of our total revenue from the sale of asphalt mixing plants, respectively, during the Track Record Period.

We face competition from domestic and international asphalt mixing plant manufacturers in medium to large scale asphalt mixing plants market. The medium to large scale asphalt mixing plants market is dominated by a small number of domestic and international asphalt mixing plant 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.

RISK FACTORS

In the small scale asphalt mixing plant market, we face competition mainly from domestic asphalt mixing plant manufacturers. The competition in the PRC small scale asphalt mixing plant market is also intense. 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 environmental protection and encouraging the use of environmental friendly equipment and products, such as recycled asphalt mixtures, we expect that the demand for Recycling Plants will grow in the near future. Our existing competitors and perhaps an increasing number of new comers may try to penetrate this market and thereby increase 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 price of our products. As such, our business, financial condition 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.

Volatility in the global market may materially and adversely affect our business, results of operations and financial condition.

Credit and capital markets globally have experienced high volatility in recent times due to factors like geopolitical tensions, availability and cost of credit, concerns about inflation or deflation and concerns about growing national debt and trade deficits of key global economic players. While there may be signs of an economic recovery, we cannot guarantee the strength of such recovery, or that such recovery can be sustained.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

The value of Renminbi and foreign currencies we trade in may fluctuate and this may affect our financial condition and our operations.

Most of our operations are in the PRC and our functional currency is the Renminbi. However, we also conduct part of our business and provide our products and services overseas. As we continue to expand our business internationally, we will increasingly be exposed to risks associated with foreign currency fluctuations. Change in the value of foreign currencies may increase our Renminbi costs by affecting the price of our imported raw materials, parts and components or reduce our Renminbi revenues by affecting the price of our exported products and services. In addition, changes in foreign exchange rates may have an impact on the book value of certain of our foreign currency denominated assets and liabilities and the value of, and any dividends payable on, our Shares which are denominated in Hong Kong dollars.

For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, we experienced a foreign exchange loss of approximately RMB739,000, RMB560,000 and a foreign exchange gain of approximately RMB40,000, respectively. We do not purchase foreign exchange forward contracts or swaps to hedge against foreign exchange risk exposure. Our business, financial condition, results of operations and prospects for growth may be adversely affected if there are unfavorable foreign exchange fluctuations.

RISK FACTORS

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.

Substantially all of our operations are conducted in the PRC. The PRC legal system is a civil law system based on written statutes, and prior court decisions can only be cited as reference and have almost no precedential value and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action investors may take against us in the PRC. In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. Any changes to such laws and regulations may materially increase our costs and regulatory exposure in complying with them.

It may be difficult to effect service of process on, or to enforce any judgments obtained outside the PRC against us, our Directors, or senior management members who live inside the PRC.

It may be difficult to effect service of process on, or to enforce judgments obtained outside the PRC against us, our Directors or our senior management members who reside in the PRC. A number of our Directors and senior management members reside in the PRC and substantially all of our assets and the assets of such persons are located in the PRC. Accordingly, it may be difficult for investors to effect service of process on any of these persons or to enforce judgments obtained outside of the PRC against us or any of these persons, as the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in many developed countries, including the United States, the United Kingdom, Japan and the Cayman Islands. As a result, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions may be difficult or even impossible.

We may be deemed to be a PRC resident for PRC tax purposes.

Under the Enterprise Income Tax (“EIT”) regime in the PRC, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and will generally be subject to a 25% EIT rate on their global income. “De facto management bodies” are defined under EIT laws as bodies that have material overall management control over the business, accounts, properties and personnel of an enterprise. As most of our management is based in the PRC and are likely to remain in the PRC, we may be treated as a PRC resident enterprise for PRC EIT purposes. If we are deemed as a PRC resident enterprise, we may be subject to PRC EIT at the rate of 25% on our worldwide income.

Unfavourable changes in the PRC economic, social and political climate, may materially and adversely affect our growth prospects, business, financial condition and results of operations.

The PRC government has, in recent times, been implementing wide scale economic reforms to utilize market forces to improve the allocation of resources in the PRC economy. Despite these reforms, there still exist substantial differences between the economic, social and political climate in the PRC and most of the developed world. The differences include the level of government

RISK FACTORS

intervention in the economy, rate of GDP growth, foreign exchange restrictions, trade balance position and rate of inflation. While the economic reforms in the PRC have had a generally positive effect on economic development of the PRC, we cannot guarantee that this positive trend will continue, or that the PRC government will continue to pursue a policy of economic reform that is conducive for our business and growth prospects.

The China Banking Regulatory Commission has also begun implementing restrictions on bank lending in early 2010. If the PRC government continues to impose stricter requirements on bank lending, our ability to obtain external bank financing will be impaired. As a result we may not have sufficient funds to pursue our growth strategies.

Additionally, our future success and growth depends on external factors that are beyond our control, including political, cultural and economic environment in the PRC; macroeconomic forces and fiscal and monetary policies to control inflation or deflation; and changes in PRC laws, regulations, administrative directives or the interpretation thereof.

Exchange control of the Renminbi may affect the value of investors’ investment.

The conversion of Renminbi into foreign currencies is restricted by the PRC government. We receive a large proportion of our income in Renminbi, and shortages in the availability of foreign currencies may restrict our ability to remit foreign currencies to pay dividends to our investors or our other shareholders, or satisfy other obligations denominated in foreign currencies. While payments of current account items can be made in foreign currencies without prior SAFE approval as long as certain procedures are adhered to, government approval is required if Renminbi is converted into a foreign currency for remittance out of the PRC for capital expenses such as the repayment of foreign currency denominated loans. There is no assurance that the PRC government will continue to allow payments of current account items without SAFE approval, or that the further restrictions will not be imposed.

If the PRC economy experiences unexpected inflationary pressures, our business and financial condition may be adversely affected.

If inflation continues to rise in the PRC economy, the price of our raw materials, parts and components which we obtain from third party suppliers and subcontractors in the PRC may increase, increasing manufacturing cost and decreasing our profitability. Inflation in the PRC economy may also lead to higher interest rates, which may cause a slowdown in economic growth in the PRC, reducing local demand for our products and services, and adversely affecting our business, results of operations and financial condition.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises* (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (“SAT Circular 698”), issued by the State Administration of Taxation (“SAT”) on 10 December 2009 with retroactive effect from 1 January 2008, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an “Indirect Transfer”, and such overseas holding company is

RISK FACTORS

located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. The PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is uncertainty as to the application of SAT Circular 698. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to avoid PRC tax. As a result, we may become at risk of being taxed under SAT Circular 698 in the future and we may be required to expend valuable resources to comply with SAT Circular 698 or to establish that we should not be taxed under SAT Circular 698, which may have a material adverse effect on our financial condition and results of operations.

Our business and operations may be adversely affected by developments or changes in PRC labor laws.

PRC labour laws require us to comply with the following that require us to expend our financial and managerial resources, and may adversely affect our business and increase operating costs:

- minimum wage requirements;
- severance payment on termination of fixed term employment contracts;
- non-fixed term employment contracts which imposes time limits for probation periods and limitations on the duration and number of times that an employee can be employed in a fixed term employment contract; and
- mandatory social insurance for employees.

We may face difficulties in complying with the requirement to provide non-fixed term employment contracts as we may have difficulties terminating employees who are under non-fixed term employment without cause. We may also suffer financial losses if we are required to make severance payments to employees under fixed term contracts when their employment under fixed term employment contracts expire, unless the employee voluntarily terminates or rejects an offer to renew his or her fixed term employment contract.

RISK FACTORS

If PRC labour laws become increasingly stringent, we may be exposed to an increasing risk that employees may make claims against us if we do not comply with such PRC labour laws. The increasing risk of potential employment disputes may lead to increasing costs if we are required to seek legal representation to defend ourselves from claims by our employees or if penalties are imposed on us by the relevant PRC authorities. Additionally, our employees may be able to unilaterally terminate his or her labour contract if we do not provide sufficient benefits for our employees, for example, if we fail to provide mandatory social insurance for our employees.

Our environmental compliance obligations may increase if PRC environmental laws become more stringent.

In order to manage the deteriorating environmental conditions in the PRC, the PRC government has in recent years been increasingly stringent in its laws relating to environmental protection, for example imposing carbon restrictions in the industrial and manufacturing sectors. We may be required to pay fines if we discharge excessive pollutants, discharge of our waste improperly or cause environmental pollution. Additionally, if our operations cause severe environmental damage, we may be required to rectify the damage, suspend our operations or even close our production facilities.

Our operating costs may be increased if we are required to comply with more stringent requirements to conduct additional tests or more extensive tests on the quantity and type of our waste products. We may also incur additional operating costs in order to update our waste discharge testing systems, improve our environmental protection technology and processes, and implement additional measures and assign more personnel to ensure that we comply with the PRC environmental laws. As a result, our financial condition, results of operations and future prospects may be materially and adversely affected.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident Shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to distribute profits to us, or otherwise adversely affect our financial position.

SAFE has issued a Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles* (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (Huifa [2014] No.37, hereinafter referred to as “**Circular No. 37**”), which is effective from 14 July 2014. Circular No. 37 requires a PRC individual resident (“**PRC Resident**”) to register with the local SAFE branch by filing a “Registration Form of Overseas Investments Contributed by Domestic Individual Residents” before he or she contributes assets or acquires equity interests in any special purpose vehicle incorporated outside the PRC (“**SPV**”) that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Under Circular No. 37, after the initial registration with SAFE, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the SPV, including, any major change of the SPV’s PRC Resident shareholder, name of the SPV, term of operation, or any increase or reduction of the SPV’s registered capital, share transfer or swap, and merger or division. Failure to comply with the registration procedures of Circular No. 37 may result in penalties, including the imposition of restrictions on the ability of the subsidiaries of SPV which are established in the PRC to distribute dividends to the SPV.

RISK FACTORS

Since Circular No. 37 has come into effect only recently, it remains unclear how the relevant PRC government authorities will interpret, amend and implement it. There is no assurance that all the PRC shareholders will register with SAFE or update SAFE’s record as required. If our PRC Shareholders fail to register with SAFE or update SAFE’s records, this may result in penalties and our subsidiaries established in the PRC may be prohibited from making payments to us from capital reductions, share transfers or liquidations of our PRC subsidiaries. This may in turn affect our ownership structure, acquisition strategy, business operations and ability to make dividend payments to our Shareholders.

Our PRC subsidiaries are subject to restrictions on dividend payments that could materially impact our ability to receive dividends.

We are a Cayman Islands holding company and all of our income is ultimately derived from dividends that are paid by our subsidiaries in the PRC. Under the EIT Law and its implementation rules, dividends payable to foreign enterprise investors that are non-resident enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place are subject to a 10% withholding tax since 1 January 2008, which may be reduced if a foreign enterprise investor is eligible for the benefits of a tax treaty with the PRC that provides for a different withholding arrangement.

Pursuant to a tax arrangement between the PRC and Hong Kong, companies incorporated in Hong Kong may be subject to withholding taxes at a rate of 5% on dividends they receive from their PRC subsidiaries of which they directly hold at least 25% equity interests. As dividends from our PRC subsidiaries will be paid to us through our Hong Kong subsidiaries that own 100% equity interests in our PRC subsidiaries, those dividends may be subject to a withholding tax at the rate of 5%. However, according to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial)* (非居民享受稅收協定待遇管理辦法(試行)) (“**Administrative Measures**”) which was promulgated on 24 August 2009 and came into force on 1 October 2009, where a non-resident enterprise (as defined under the EIT Law) that receives dividends from a PRC resident enterprise wishes to enjoy the favourable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favourable tax treatments provided in the tax arrangements.

Furthermore, on 27 October 2009, the State Administration of Taxation, or the SAT, promulgated the Circular on How to Understand and Recognise the “Beneficial Owner” in Tax Treaties* (關於如何理解和認定稅收協定中「受益所有人」的通知) (“**Circular 601**”). Circular 601 clarifies that a beneficial owner is a person having actual operations and this person could be an individual, a company or any other entity. Circular 601 expressly excludes a “conduit company” that is established for the purposes of tax avoidance and dividend transfers and is not engaged in actual operations such as manufacturing, sales and management, from being a beneficial owner. It is still unclear how Circular 601 is being implemented in practice by the SAT or its local counterparts. If our Hong Kong subsidiaries are not deemed to be beneficial owners of our PRC subsidiaries, those dividends may be subject to withholding tax at the rate of 10%, instead of 5%.

RISK FACTORS

Moreover, under the EIT Law and its implementation rules, as discussed above, we may in the future be treated as a PRC tax resident enterprise by the PRC taxation authorities. In that case, dividends on our Shares and capital gains from sales of our Shares realised by foreign shareholders may be regarded as income from “sources within the PRC” and may be subject to a 10% withholding tax, subject to any reduction by an applicable tax treaty. If foreign shareholders are required to pay PRC withholding tax on dividends on our Shares or capital gains from any sales of our Shares, the value of the investment in our Shares may be materially and adversely affected.

Any recurrence of natural disasters or severe contagious diseases in the PRC may adversely affect us.

Our products are manufactured and assembled at our facilities located in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, construction projects and livelihood of the people of the PRC. Material damage to, or the loss of, the facilities due to fire, severe weather, flood, earthquake, or other acts of God or cause may not be adequately covered by proceeds of our insurance coverage and could materially and adversely affect our business and operating results. Acts of war and terrorist attacks may cause damage or disruption to our business, our employees and our markets, any of which could adversely impact our business and operating results.

Any future outbreaks of contagious diseases, including avian influenza and severe acute respiratory syndrome (“SARS”) may materially and adversely affect our business, financial condition and results of operations. There have been reports in the past of outbreaks of a highly pathogenic avian influenza caused by H5N1 virus in certain regions of Asia and Africa since 2004. The World Health Organization and other agencies have issued and may continue to issue warnings on a potential avian influenza pandemic if there is sustained human-to-human transmission. Furthermore, the World Health Organization in April 2009 raised its pandemic alert level in response to an outbreak of influenza A caused by the H1N1 virus that originated in Mexico, and resulted in a number of confirmed cases worldwide. An outbreak of avian influenza in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, a recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in the first half of 2003, which affected the PRC, Hong Kong and certain other areas, could have similar adverse effects. We cannot assure you that any future outbreak of avian influenza, SARS, influenza A (H1N1) or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, influenza A (H1N1) or other epidemics, will not seriously interrupt our operations or those of our suppliers, subcontractors or customers, which may have a material adverse effect on our business, results of operations and financial condition.

RISK FACTORS

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our shares and an active trading market for our shares may not develop or be sustained.

While we have applied to list our shares on the Hong Kong Stock Exchange, we cannot guarantee that an active or liquid market for our shares will develop, or be sustained. The [REDACTED] of our shares will be determined through negotiations among us and the Sole Global Co-ordinator (for itself and on behalf of the Underwriters) and it may not be a true indicator of the initial [REDACTED] of our shares. The initial [REDACTED] of our shares may be lower than the [REDACTED] due to macroeconomic events, unforeseen market conditions or a variety of other factors beyond our control.

Our dividend distribution after the [REDACTED] will be made at the discretion of our Directors.

Our dividend distribution after the [REDACTED] will be made at the discretion of our Directors, and depends on many factors, including our earnings and financial condition, operating requirements and capital requirements. Please see the section titled “Financial Information – Dividend Policy” for more information about our dividend policy.

Our investors’ interest as shareholder may be diluted if we raise funds by issuing more shares.

If we raise funds by issuing new equity or new equity-linked securities in order to meet our funding needs, our investors’ percentage ownership of our Company may decrease. Additionally, if the new equity that we issue confers preferential rights, such rights may take priority over those rights conferred by our Shares.

Facts and statistics relating to the PRC economy and the asphalt mixing plant industry mentioned in this document may not be completely reliable.

The facts and statistics mentioned in this document relating to the PRC, the PRC economy and the industry in which we operate have been obtained from communications with personnel from various government agencies or independent third parties which we believe to be reliable. While we have taken reasonable care in extracting and reproducing such information in this document, we cannot guarantee the accuracy of the information from such sources. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any underwriter or any other party involved in the [REDACTED]. Investors should consider whether the information provided should be given full weight, bearing in mind the reliability of the source of information.

Investors may face difficulties in protecting their interests under Cayman Islands law.

The rights of the Shareholders to take actions against our Directors and the rights of our minority shareholders to take actions against us and the duties of our Directors towards us and our Shareholders are governed by the common law of the Cayman Islands and our Articles of Association. In general, our corporate affairs are governed by (amongst other things) the laws of

RISK FACTORS

the Cayman Islands, our Articles of Association and the Companies Law. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ from the legal position for minority shareholders of companies incorporated in Hong Kong and in other jurisdictions. For further details, please refer to the section titled “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this document.

We will continue to be controlled by our controlling shareholders, whose interests may differ from our investors’ interests and the interests of other shareholders.

The controlling shareholders of the company are Choi Hung Nang, Tin Suen Chu, Choi Hon Ting, Derek and Choi Kwan Li, Glendy, who indirectly hold [REDACTED] and [REDACTED] of our total ordinary issued shares respectively, before the [REDACTED] of our shares. Choi Hung Nang and Tin Suen Chu are husband and wife, and Choi Hon Ting, Derek and Choi Kwan Li, Glendy are their son and daughter respectively. The controlling shareholders indirectly own a total of [REDACTED] of our total ordinary issued shares before the [REDACTED]. While our controlling shareholders will have a smaller percentage of shareholding after the [REDACTED], and will be bound to adhere to the process of decision making set out in our Articles of Association and as required by law, our controlling shareholders may still be able to influence our major policy decisions, business strategy and material transactions. It is possible that there may be differences in opinion between our controlling shareholders and our remaining shareholders from time to time, and we cannot guarantee that our controlling shareholders will influence our company to pursue or refrain from pursuing strategies or actions in a manner that serves the best interest of the remaining shareholders.

Prospective investors should read the entire document carefully, and are strongly cautioned not to place any reliance on information contained in the media or press which are not consistent with the information in this document.

There may have been press and media coverage regarding us and the [REDACTED] prior to the publication of this document. We may not have any control over the information that is released in press and media reports, and may not have authorised such reports. We therefore make no representation as to the accuracy, completeness or reliability of the information in any such press or media coverage. To the extent that the information in such press or media coverage conflicts with the information we have provided in this document, we disclaim such information. In deciding whether or not to subscribe for our Shares, investors should rely only on the information included in this document.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this document. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- future developments, trends and competition in industries and markets in which we operate;
- products under development or planning;
- our strategy, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- the prospective financial information regarding our business;
- our future financial condition and results of operations;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions; and
- changes to regulatory and operating conditions in the markets in which we operate.

In some cases we use words such as “believe”, “seek”, “intend”, “anticipate”, “estimate”, “project”, “plan”, “potential”, “will”, “may”, “should”, “expect” and other similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this document, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements.

Furthermore, these forward-looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, factors disclosed under “Risk Factors” and elsewhere in this document.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Choi Hung Nang (蔡鴻能) (<i>Chairman</i>)	Flat A 39th Floor, Block 1, Sky Horizon 35 Cloud View Road North Point Hong Kong	Chinese
Ms. Choi Kwan Li, Glendy (蔡群力)	Flat E 3rd Floor, Tempo Court 4 Braemar Hill Road North Point Hong Kong	Chinese
Mr. Choi Hon Ting, Derek (蔡翰霆)	Room 2 20th Floor, Block D, Evergreen Villa 43 Stubbs Road Wan Chai Hong Kong	Chinese
Mr. Liu Tom Jing-zhi (劉敬之)	Flat 11B Seaview Mansion 34 Kennedy Road Mid-Levels Hong Kong	Australian
Mr. Lao Kam Chi (劉金枝)	R. Bras Da Rosa S/N 14 Andar E Phas 2 Ed. Cheong Meng Garden Meng Seng Macao	Chinese
Mr. Yu Ronghua (俞榮華)	Unit 1107 No. 45 Boshan Road, Lane 11 Pudong, Shanghai PRC	Chinese
<i>Non-executive Director</i>		
Mr. Chan Lewis (陳令紘)	Flat 8C 32 Broadway Mei Foo Sun Chuen Kowloon Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Independent Non-executive Directors</i>		
Mr. Law Wang Chak, Waltery (羅宏澤)	Flat E, 19th Floor, Tower 1 The Victoria Towers 188 Canton Road Hong Kong	Chinese
Mr. Li Zongjin (李宗津)	Room 36E, Block 15, Ocean Shores Phase 3 Tseung Kwan O New Territories Hong Kong	Chinese
Mr. Lee Wai Yat, Paco (李偉壹)	Flat C, 16th Floor, Block 2, Villa Esplanada Tsing Yi New Territories Hong Kong	Chinese
Mr. Fok Wai Shun, Wilson (霍偉舜)	Flat 20C, Rome Court, Realty Garden 41 Conduit Road Mid-Levels Hong Kong	Chinese

For further information regarding our Directors, please see the section headed “Directors, Senior Management and Employees” in this document.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor BOCOM International (Asia) Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

Sole Global Coordinator [REDACTED]

**Joint Bookrunners and
Joint Lead Managers** [REDACTED]

[●]

Legal advisers to our Company

As to Hong Kong law:

Minter Ellison
Level 25, One Pacific Place
88 Queensway
Hong Kong

As to PRC law:

Chen & Co. Law Firm
51st Floor, Shanghai World Financial Center
100 Century Avenue
Pudong New District
Shanghai 200120
PRC

As to Cayman Islands law:

Conyers Dill & Pearman (Cayman) Limited
Cricket Square
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to Australian and United Nations law:

Minter Ellison
Level 3, Minter Ellison Building
25 National Circuit Forrest
GPO Box 369
Canberra ACT 2601
Australia

As to United States and European Union law:

Norton Rose Fulbright LLP
3 More London Riverside
London, SE1 2AQ
United Kingdom

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal advisers to
the Underwriters** [REDACTED]

**Auditors and reporting
accountants** KPMG
8th Floor, Prince’s Building
10 Chater Road
Central
Hong Kong

Receiving Banks [REDACTED]

CORPORATE INFORMATION

Registered Office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Headquarter and principal place of business in the PRC	No. 12 Yinghua Road Yongqing Industrial Park Yongqing County Langfang City Hebei Province PRC
Principal Place of business in Hong Kong	7th Floor, Hing Lung Commercial Building 68-74 Bonham Strand Sheung Wan Hong Kong
Company website	<u>www.dgtechnology.com</u> <i>(Information contained in this website does not form part of this document)</i>
Compliance adviser	Shenyin Wanguo Capital (H.K.) Limited Level 19 28 Hennessy Road Hong Kong
Company secretary	Mr. To Kwong Yeung CPA Flat E, 36th Floor, Block 3 Belvedere Garden Phase 3 Tsuen Wan New Territories Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	Ms. Choi Kwan Li, Glendy Flat E, 3rd Floor, Tempo Court 4 Braemar Hill Road North Point Hong Kong Mr. To Kwong Yeung Flat E, 36th Floor, Block 3 Belvedere Garden Phase 3 Tsuen Wan New Territories Hong Kong

CORPORATE INFORMATION

Audit committee

Mr. Law Wang Chak, Waltery (*Chairman*)
Mr. Lee Wai Yat, Paco
Mr. Li Zongjin
Mr. Fok Wai Shun, Wilson

Remuneration committee

Mr. Fok Wai Shun, Wilson (*Chairman*)
Mr. Law Wang Chak, Waltery
Ms. Choi Kwan Li, Glendy

Nomination committee

Mr. Choi Hung Nang (*Chairman*)
Mr. Li Zongjin
Mr. Lee Wai Yat, Paco

CORPORATE INFORMATION

Hong Kong Share Registrar [REDACTED]

**Principal share registrar and
transfer office in
the Cayman Islands** [REDACTED]

Principal banks Nanyang Commercial Bank Limited
151 Des Voeux Road
Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
1 Queen’s Road Central
Hong Kong

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers. In addition, we engaged CCID for preparing an independent industry report in respect of the [REDACTED]. We believe that the sources of such information and statistics are appropriate and we have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading in any material respect or that any part of the information has been omitted rendering such information false or misleading. The information and statistics have not been independently verified by the Company, Sole Sponsor, Sole Global Coordinator, Joint Bookrunners, Joint Lead Managers, Underwriters, any other persons involved in the [REDACTED] or their respective directors, advisers and affiliates. Therefore, the Company, Sole Sponsor, Sole Global Coordinator, Joint Bookrunners, Joint Lead Managers, Underwriters, any other persons involved in the [REDACTED] or their respective directors, advisers or affiliates make no representation as to the correctness or accuracy in respect of the information and statistics set out in this document. The reliability of the CCID Report may be affected by the accuracy of the relevant assumptions and factors considered by CCID for the market forecasts, industry trends and the future development of the PRC asphalt mixing plant manufacturing industry. The information set out in this section should not be unduly relied upon as the information and statistics may be inaccurate, incomplete, out-dated or inconsistent with the other information prepared inside or outside the PRC.

SOURCES AND USE OF INFORMATION

We have commissioned CCID, an independent market research institution based in the PRC, to analyse and report on the asphalt mixing plant manufacturing industry in the PRC. The fee payable to CCID for the preparation and use of the CCID Report is RMB280,000. The payment of this commission is not conditional on our successful listing or on the research findings of the CCID Report.

CCID provides consulting services in the PRC. Headquartered in Beijing, it is listed on the Growth Enterprise Market of the Hong Kong Stock Exchange (HKEx Stock Code: 8235). CCID prepared its report based on the national statistics information, statistics of relevant government departments and industry associations, relevant national and local policies, site visits and interviews as well as its independent analysis on the relevant information. Market forecasts and industry trends in this section represent CCID’s view on the future development of the PRC asphalt mixing plant manufacturing industry based on key drivers of market demand. CCID developed its estimates or forecasts on the following bases and assumptions:

- That the social, economic and political environment in the PRC being examined remain stable during the forecast period and the economic growth rate remain stable with a slight decline;
- That the asphalt mixing plant manufacturing industry is expected to grow in line with the PRC’s overall economic growth;

INDUSTRY OVERVIEW

- CCID has considered related industry key drivers as including macroeconomic policy and development in the PRC, road construction planning and policies relating to asphalt mixing plant manufacturing industry in the PRC.

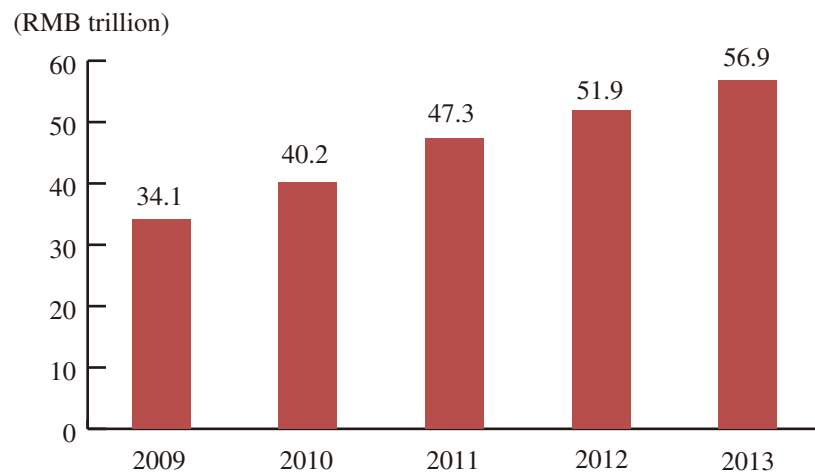
Except as otherwise noted, all the data and forecasts in this section are derived from the CCID Report. Our Directors, after reasonable consideration, confirm that they were not aware of any adverse change to the market information since the date of the CCID Report which may qualify, contradict or have an impact on the information in this section.

OVERVIEW OF THE PRC ECONOMY AND ROADS IN THE PRC

Economic Growth of the PRC

The PRC has been experiencing significant economic growth in recent years. According to the National Bureau of Statistics of the PRC, the PRC’s nominal GDP increased from approximately RMB34.1 trillion in 2009 to approximately RMB56.9 trillion in 2013, representing a CAGR of approximately 13.7%. The following chart sets forth the PRC’s nominal GDP during the periods indicated:

PRC’s Nominal GDP, 2009-2013



Source: CCID Report

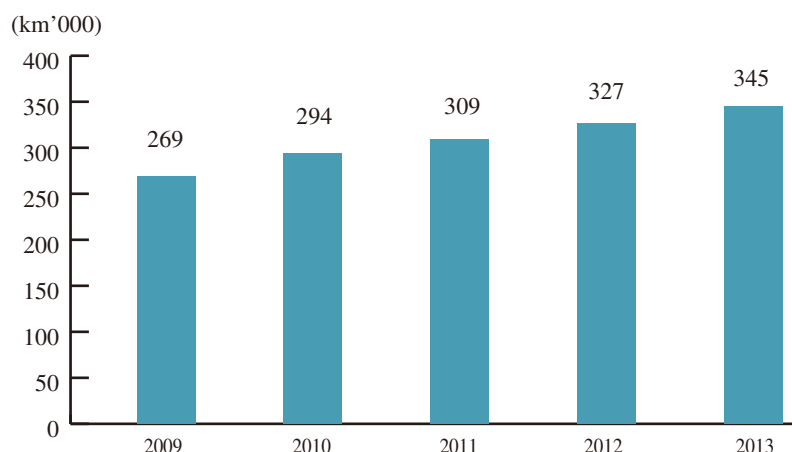
Roads in the PRC can be broadly categorised into urban roads and highways.

INDUSTRY OVERVIEW

Urban roads

The mileage of urban roads in the PRC has increased from approximately 269,000 km in 2009 to approximately 345,000 km in 2013, representing a CAGR of approximately 6.4%, with an average increase of approximately 15,200 km per year. The table below shows the urban road mileage statistics in the PRC during the periods indicated:

Urban road mileage in the PRC, 2009-2013



Source: CCID Report

Highways

Highways in the PRC are graded according to its usage, functionality and traffic. They are classified into five grades: expressways, first grade highways, second grade highways, third grade highways and fourth grade highways. The table below sets out the total mileage of highways in the PRC by grade during the periods indicated:

Total mileage of highways in the PRC, 2009-2013

Year	Mileage by grade (km '000)						Total
	Expressways	First grade highways	Second grade highways	Third grade highways	Fourth grade highways	Non-graded highways	
2009	65.1	59.5	300.7	379.0	2,252.0	804.6	3,860.8
2010	74.1	64.4	308.7	388.0	2,469.5	703.5	4,008.2
2011	84.9	68.1	320.5	393.6	2,586.4	652.8	4,106.4
2012	96.2	74.3	331.5	401.9	2,705.8	627.9	4,237.5
2013	104.4	79.5	340.5	407.0	2,824.1	600.7	4,356.2
CAGR	12.5%	7.5%	3.2%	1.8%	5.8%	-7.1%	3.1%

Source: CCID Report

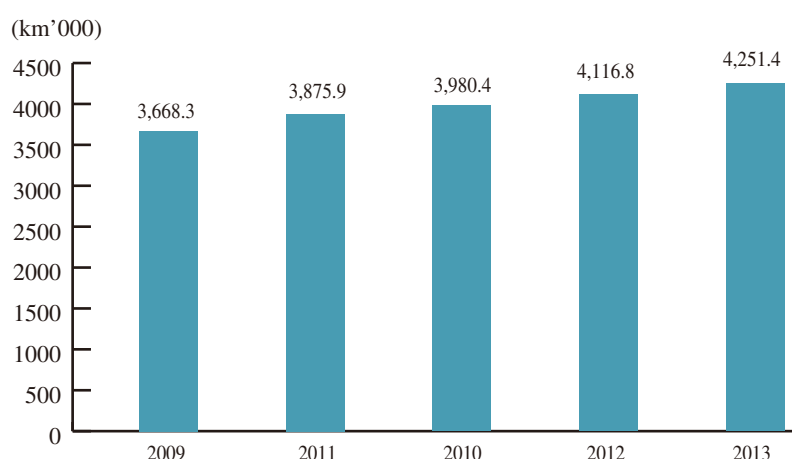
INDUSTRY OVERVIEW

The CAGR of expressways and first grade highways from 2009 to 2013 was approximately 12.5% and 7.5%, respectively and which were amongst the highest in the growth rate of highways during the same periods.

Road maintenance

The following chart sets out the road mileage of highway maintenance during the periods indicated:

Total mileage of highway maintenance in the PRC, 2009-2013



Source: CCID Report

The total mileage of highway maintenance increased from approximately 3.7 million km in 2009 to approximately 4.3 million km in 2013, representing a CAGR of 3.8%.

The expenditure relating to road maintenance during the Eleventh Five-Year Plan period was approximately RMB801.1 billion. The investment and road maintenance projects are expected to achieve growth of 10% to 20% during the Twelfth Five-Year Plan period. The total road maintenance and management funding required from 2011 to 2030 is approximately RMB11.5 trillion, among others, the maintenance and management funding required for national highways, inter-provincial highways and rural roads is RMB3.1 trillion, RMB3.2 trillion and RMB5.2 trillion, respectively, and 70% to 80% of the funding required for road maintenance and management belongs to funding for road maintenance and reconstruction.

The following table sets out the expenditures for road maintenance in national public finance in China from 2010 to 2013:

	2010	2011	2012	2013
Expenditure for road maintenance (RMB billion)	45.0	54.1	52.2	57.6

Source: CCID Report

INDUSTRY OVERVIEW

The amount of expenditure for road maintenance increased from approximately RMB45.0 billion in 2010 to approximately RMB57.6 billion in 2013, representing a CAGR of approximately 8.6%.

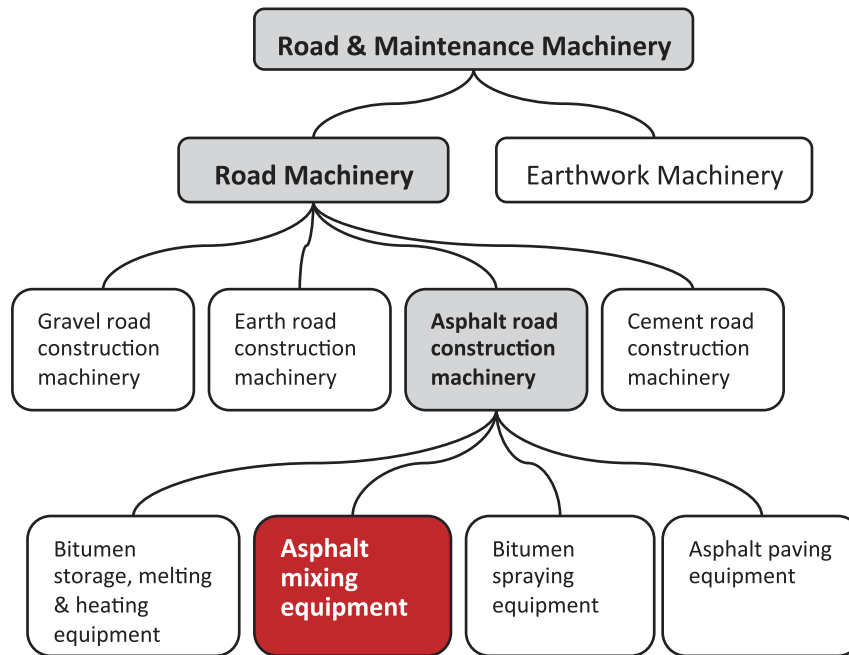
According to the CCID Report, the total mileage of the highways in the PRC will reach approximately 4.5 million km by 2015. Expressways, first grade highways and second grade highways, the majority of which are paved with asphalt mixtures, accounted for approximately 15% of the total mileage of the PRC highways, equivalent to approximately 680,000 km. Between 2011 and 2015, it is expected that not less than 17% of the mileage of the asphalt paved roads will be medium to large scale maintenance work. As such, the total mileage of expressways, first grade highways and second grade highways to be repaired is expected to reach approximately 120,000 km.

Using RAP as an alternative to new materials, such as aggregates, fillers and bitumen, in asphalt mixtures can effectively reduce cost. According to CCID Report, as up to 80% of the bitumen in the RAP can be recycled and use in the production of recycled asphalt mixtures, there could be up to 80% saving of the bitumen in the RAP portion of the materials in the recycled asphalt mixtures. According to the Guidance on Promoting Road Pavement Material Recycling* (《交通運輸部關於加快推進公路路面材料循環利用工作的指導意見》) issued by the Ministry of Transport of the PRC in 2012, the annual volume of RAP generated from medium to large scale road maintenance projects for major highways alone has reached 160 million tonnes in 2012. If 30% of such volume can be recycled each year, over RMB10.0 billion of material costs may be saved in highway construction and maintenance projects each year.

INDUSTRY OVERVIEW

CLASSIFICATION OF ROAD MACHINERY INDUSTRY

The asphalt mixing plant industry is classified in the PRC under road and maintenance industry. The diagram below shows the classification of our major products in our industry in the PRC:



ASPHALT MIXING PLANT MANUFACTURING INDUSTRY IN THE PRC

Historic Development

Prior to 1978, the asphalt mixing plant manufacturing industry was in its early stage of development. Asphalt mixing plants were mainly small pieces of equipment which applied low technology and produced a small yield, only capable of performing basic constructions for asphalt pavements. From 1978 to 2000, through the introduction of advanced manufacturing technologies and equipment, a number of manufacturers began to develop and produce their own series of products, mainly focusing on asphalt mixing plants of 3000 model series or below. However, there was still a large disparity in the standard of technology, production efficiency and scale of production between 3000 model series asphalt mixing plants manufactured by local and overseas manufacturers. Since 2004, asphalt mixing plants were essentially no longer imported into the Chinese market. Since 2008, the rapid developments in road construction prompted manufacturers to further research and develop asphalt mixing plants to increase their production capabilities. In the past three years, the whole range of 2000 model series or below to 5000 model series asphalt mixing plants has been manufactured domestically in the PRC, fully satisfying the demand of the PRC market and gradually exporting to other countries.

INDUSTRY OVERVIEW

Products

Asphalt mixing plants may be categorised according to their production capacity. 2000 model series or below, 3000 model series and 4000 model series or above asphalt mixing plants are generally regarded as small scale, medium scale and large scale asphalt mixing plants in the PRC, respectively. The following table sets forth the production capacity of asphalt mixing plants under standard conditions based on PRC national standard:

	Production capacity ⁽³⁾ <i>(tonne/hour)</i>	Mixing quantity <i>(kg/tank)</i>
2000 model series or below	80-160	1,000-2,000
3000 model series ⁽¹⁾	200-240	2,500-3,000
4000 model series	320	4,000
5000 model series ⁽²⁾	400	5,000

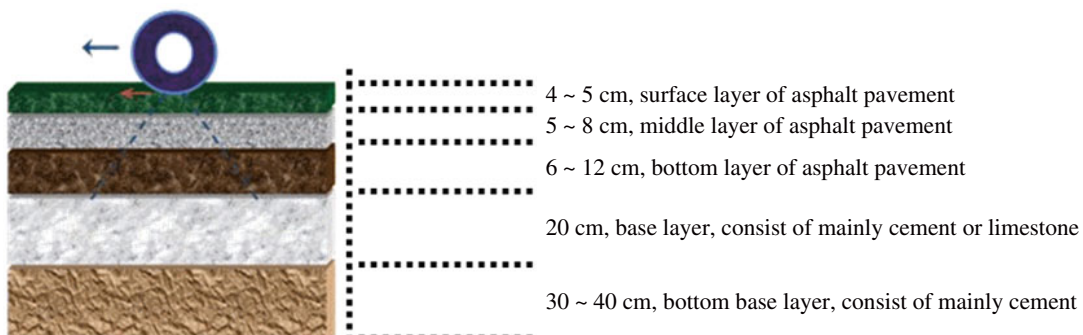
Notes:

- (1) Based on industry practice, asphalt mixing plants with production capacity of 200 tonnes per hour and mixing quantity of 2,500kg per tank is generally categorised as 3000 model series.
- (2) The setting of production capacity of 5000 model series asphalt mixing plants under standard conditions is based on industry practice.
- (3) The production of recycled asphalt mixtures by conventional asphalt mixing plants with recycling components installed usually requires longer mixing time than that required for the production of regular asphalt mixtures.

STRUCTURE OF ASPHALT PAVED ROADS

Asphalt paved roads usually consist of five layers, with the top three layers being asphalt pavements and the bottom layers consists of cement or limestone. The following diagram shows the structure of paved road with asphalt mixtures:

The structure of asphalt pavements are set out as follows:



Amongst the three layers of asphalt pavements, the surface layer of asphalt pavements contains more bitumen than the middle and bottom layers. As such, it requires more costs to produce the asphalt mixtures for use in the surface layer of asphalt pavements.

INDUSTRY OVERVIEW

Asphalt pavement recycling technologies

Asphalt pavement recycling technologies can be divided into four categories, namely, in-situ hot-mix recycling, hot-mix plant recycling, in-situ cold-mix recycling and cold-mix plant recycling. The following table sets forth the description of each of these four categories:

- In-situ hot-mix recycling – heating the pavement, mixing the RAP with a portion of new asphalt mixtures, repaving the pavement with recycled asphalt mixtures on site.
- Hot-mix plant recycling – cutting and milling the pavement, recycling the RAP in a hot mixing plant, then repaving the road using recycled asphalt mixtures.
- In-situ cold-mix recycling – cutting and milling the pavement, grinding the RAP materials, repaving the road with recycled asphalt mixtures on site.
- Cold-mix plant recycling – cutting and milling the pavement, recycling the RAP in a cold mixing plant, then repaving the road using the recycled asphalt mixtures.

We adopt hot-mixing plant recycling technology for our Recycling plants.

The asphalt pavement hot recycling technologies may be categorised into hot-mix plant recycling or in-situ hot recycling. The hot-mix plant recycling and in-situ hot recycling have different scope of application and target for different kinds of road damage. In-situ hot recycling is mainly used in road maintenance work for road damage in the surface layer of the asphalt pavements, whereas hot mix plant recycling may be used in road maintenance work for road damage in all layers of asphalt pavements. In addition to road maintenance work, the hot-mix plant recycling technology may also be applied in road construction projects.

The difference between hot-mix plant recycling technology and cold-mix plant recycling technology lies mainly in the quality of recycled asphalt mixtures produced. The recycled asphalt mixtures produced through hot-mix plant recycling technology may be used in all layers of asphalt pavements for all levels of roads. On the other hand, cold-mix plant recycling technology is generally used in road maintenance work where both the surface and non-surface layers of asphalt pavements are damaged. The recycled asphalt mixtures produced through cold mix plant recycling technology consist of RAP from the surface layer and the non-surface layers of asphalt pavements. Such recycled asphalt mixtures cannot be used in the surface layers of asphalt pavements in the same level of roads where the RAP was removed. For example, the recycled asphalt mixtures (which contained RAP removed from first grade highways) produced by applying cold-mix plant recycling technology may only be used in non-surface layers of asphalt pavements in first grade and second grade highways or the surface layer of lower grade highways.

The difference between hot-mix plant recycling technology and in-situ cold-mix recycling mainly lies in the scope of application and the quality of recycled asphalt mixtures produced. Hot mix plant recycling technology may be used in road construction and maintenance projects, including the construction and maintenance of all level of highways. In-situ cold-mix recycling technology may only be used in road maintenance projects. With respect to the quality of recycled asphalt mixtures produced, similar to the recycled asphalt mixtures produced by cold-mix plant recycling, recycled asphalt mixtures produced by in-situ cold-mix recycling cannot be used in the surface layers of asphalt pavements in the same level of roads where the RAP was removed.

INDUSTRY OVERVIEW

According to the CCID Report, the hot-mix plant recycling is the most common recycling technology currently in use and the hot recycling technologies will be adopted in the majority of roads maintenance projects in the PRC that requires recycled asphalt pavements in the next three to five years.

Prices of Asphalt Mixing Plants

The following table sets forth the reference price of standard asphalt mixing plants in 2014 in the PRC based on model series:

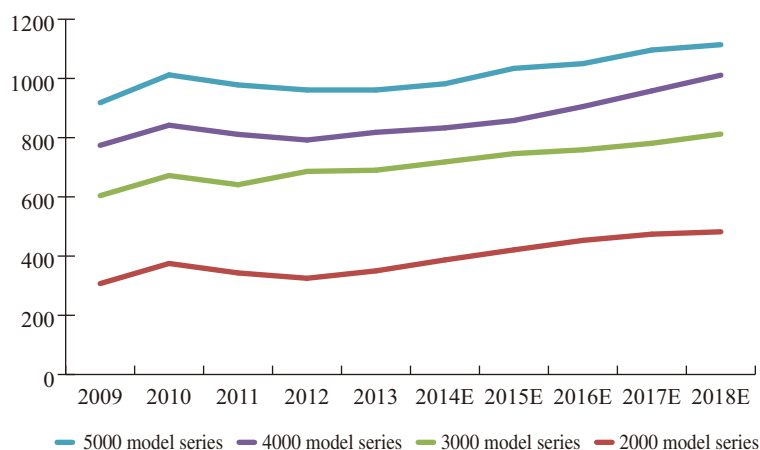
Model series	2000 or below	3000	4000	5000
Reference price (RMB) (in thousand)	1,700-4,100	4,300-6,800	6,000-8,800	6,800-10,900

Source: CCID Report

Based on our average selling price of asphalt mixing plants for the nine months ended 30 September 2014, the prices of our asphalt mixing plants are at the medium to high end of the range of the reference prices above.

The following chart sets out the price movements of asphalt mixing plants (including Conventional and Recycling Plants) in the PRC between 2009 and 2013 and the estimated prices of asphalt mixing plants between 2014 and 2018:

Price movements of asphalt mixing plants in the PRC, 2009-2013, 2014E-2018E



Source: CCID Report

Prices of asphalt mixing plants have generally been stable from 2009 to 2013. The two major factors affecting asphalt mixing plants are prices of steel and imported raw materials. In view of the fact that there has been a decrease in steel price in the past three years, prices of imported components have been increasing slowly at a rate of 3-5% per year, and taking into consideration factors such as currency appreciation and inflation, the production cost of asphalt mixing plants has remained stable in the past few years.

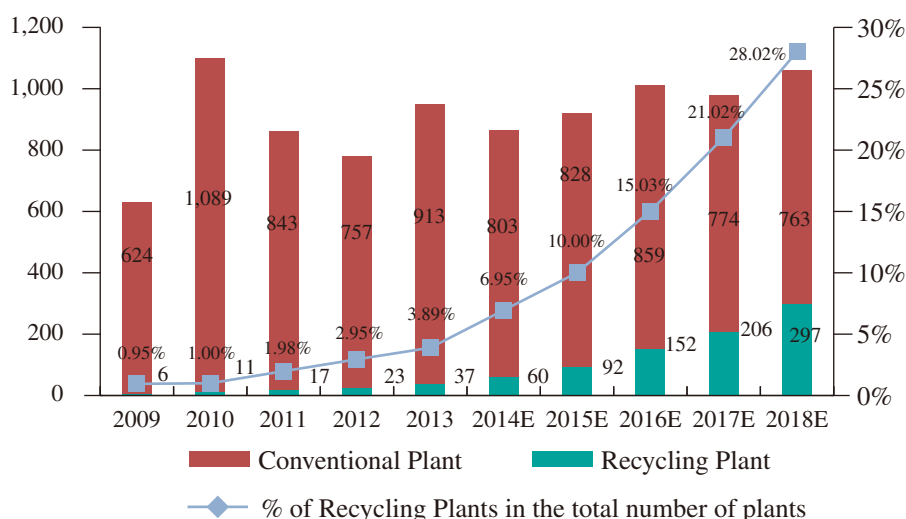
INDUSTRY OVERVIEW

From 2014 to 2018, it is estimated that the prices of asphalt mixing plants will increase, taking into consideration of a number of factors such as inflation and costs of labour. For 2000 model series or below asphalt mixing plants, the increase in price is expected to be lower than those of higher model series because of the lower technical barrier to entry into the small scale asphalt mixing plant market. Between 3000 model series and 4000 model series or above asphalt mixing plants, it is estimated that the increase in price in 4000 model series or above asphalt mixing plants would increase at a higher rate, because of the limited number of manufacturers in the large scale asphalt mixing plant market, the more advanced technical capabilities required to manufacture these plants and the higher technical barrier to entry into that market.

Sales volume of asphalt mixing plants

The following table sets out the annual sales volume of asphalt mixing plants manufactured in the PRC between 2009 and 2013 and the estimated annual sales volume of asphalt mixing plants manufactured in the PRC between 2014 and 2018:

Annual sales volume of asphalt mixing plants manufactured in the PRC, 2009-2013, 2014E-2018E



Source: CCID Report

The demand for asphalt mixing plants in the road construction industry reached a historic record in 2010 after the PRC government implemented policies to strengthen macroeconomic regulation and control efforts to stimulate the PRC’s economic growth during the global economic crisis, with annual sales volume reaching 1,100 sets in 2010. In 2011 and 2012, as road construction gradually reached a steady growth rate, there has been a corresponding decrease in the demand for asphalt mixing plants. 860 and 780 sets of asphalt mixing plants manufactured in the PRC were sold in 2012 and 2013, respectively, representing a decrease of approximately 21.8% and 9.3% as compared to the same period of the last year, respectively. The sales volume of asphalt mixing plants manufactured in the PRC increased to approximately 950 units in 2013.

INDUSTRY OVERVIEW

The percentage of sales volume of Recycling Plants manufactured in the PRC increased from approximately 1.0% in 2009 to approximately 3.9% in 2013. It is estimated that the percentage of sales volume of Recycling Plants manufactured in the PRC will increase from approximately 7.0% in 2014 to approximately 28.0% in 2018. With the increase in the sales volume of Recycling Plants, the sales volume of Conventional Plants decreases gradually. The percentage of sales volume of Conventional Plants manufactured in the PRC decreased from approximately 99.0% in 2009 to approximately 96.1% in 2013. It is estimated that the percentage of sales volume of Conventional Plants manufactured in the PRC will decrease from approximately 93.0% in 2014 to approximately 72.0% in 2018.

Exports

In terms of type of products exported, asphalt mixing manufacturers in the PRC generally export small to medium scale asphalt mixing plants to markets such as in Southeast Asia and Africa. This is because such enterprises have a price advantage when selling small to medium scale asphalt mixing plant to such locations. We were the first and one of the few asphalt mixing plant manufacturers in the PRC that have acquired E.U. CE mark, and are capable of exporting our products to Europe and other developed countries such as Australia. Methods of exportation can either be (i) direct export to foreign users; or (ii) indirect export where products are first sold to PRC construction companies and then transported overseas for their construction work. The following table sets out certain exports data (including export and indirect export) for asphalt mixing plants in the PRC from 2011 to 2013:

Exports Data for asphalt mixing plants in the PRC, 2011-2013

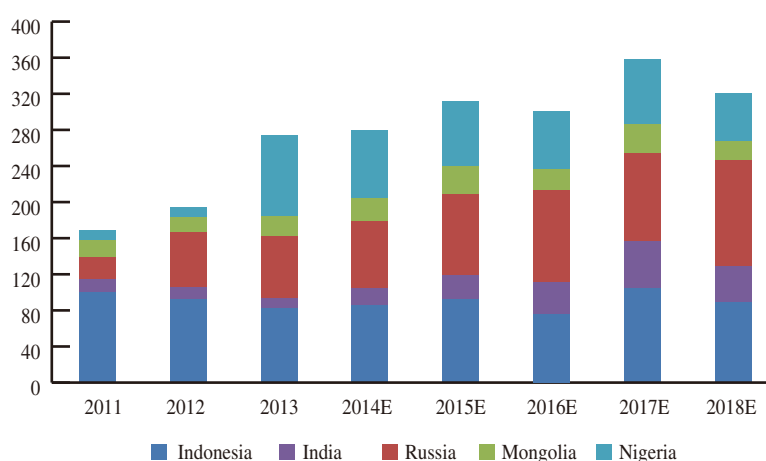
Country	2011			2012			2013		
	Number	Amount	Average price of single set of plant	Number	Amount	Average price of single set of plant	Number	Amount	Average price of single set of plant
	(sets)	(US\$) (‘000)	(US\$) (‘000)	(sets)	(US\$) (‘000)	(US\$) (‘000)	(sets)	(US\$) (‘000)	(US\$) (‘000)
Russia	24	6,065.8	252.7	60	18,275.7	304.6	68	19,809.9	291.3
India	15	6,179.9	412.0	14	4,388.3	313.4	12	2,971.0	247.6
Mongolia	19	5,724.6	301.3	17	5,376.2	316.3	22	5,709.5	259.5
Indonesia	100	8,928.2	89.3	92	12,545.4	136.4	82	13,813.9	168.5
Nigeria	11	3,011.9	273.8	12	2,899.2	241.6	90	7,104.7	78.9
Sri Lanka	44	26,238.3	596.3	-	-	-	-	-	-
Kazakhstan	21	7,786.6	370.8	-	-	-	12	3,066.3	255.5
Saudi-Arabia	18	7,537.5	418.8	-	-	-	10	5,668.6	566.9
Algeria	21	3,091.4	147.2	19	3,119.8	164.2	-	-	-
Philippines	17	2,163.6	127.3	24	4,932.7	205.5	-	-	-
Angola	-	-	-	20	4,674.6	233.7	-	-	-
Malaysia	-	-	-	50	3,159.9	63.2	-	-	-
Zambia	-	-	-	-	-	-	22	6,232.0	283.2
Australia	-	-	-	-	-	-	24	5,477.1	228.2
Pakistan	-	-	-	-	-	-	13	4,547.0	349.8

Source: CCID Report

INDUSTRY OVERVIEW

Based on the export data in recent years, countries such as Indonesia, India, Russia, Mongolia and Nigeria have become the major long term target countries for export of asphalt mixing plants by manufacturers in the PRC. Out of these five countries, we exported our asphalt mixing plants directly and indirectly to India, Russia and Mongolia during the Track Record Period. The following table sets forth the export data of asphalt mixing plants from the PRC to these five countries from 2011 to 2013 and the estimated export data from the PRC to these five countries from 2014 to 2018:

Export of asphalt mixing plants, 2011-2013, 2014E-2018E



Source: CCID Report

These countries include countries with high economic growth potential countries such as India and Russia, which are members of BRICS, and developing countries with populations of over 100 million such as Indonesia and Nigeria. CCID expects that the development of these countries will lead to an increase in infrastructure investment, which will in turn lead to a continuing and steady demand for asphalt mixing plants. In addition, with the “One Belt, One Road” development strategy to be implemented by the PRC government, business interactions between the PRC and other central Asian countries are expected to increase. As such, investment in infrastructure and highways in the relevant regions is expected to increase. This will create opportunities for PRC machinery manufacturers to expand their overseas markets. As such, CCID is optimistic about the number of asphalt mixing plants to be exported from the PRC in the next 5 years.

Competitive Landscape

The medium to large scale asphalt mixing plant market is dominated by a small number of domestic and international asphalt mixing plant manufacturers. Amongst the number of units of medium to large scale asphalt mixing plants manufactured in the PRC and sold by domestic and international asphalt mixing plant manufacturers, the top five asphalt mixing manufacturers sold approximately 60.1% medium to large scale of the asphalt mixing plants. 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%. The other top five manufacturers include a state-owned company and non state-owned companies in the PRC as well as European based international manufacturers.

INDUSTRY OVERVIEW

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

The small scale asphalt mixing plant market consists of mainly domestic asphalt mixing plant manufacturers and the competition is also intense. In addition to the customers’ sophistication and familiarity with asphalt mixing plant manufacturers and their products, there is a larger number of manufacturers which are capable of manufacturing of small scale asphalt mixing plants on a mass production scale. According to the CCID Report, as at the end of 2013, there were about 40 asphalt mixing plant manufacturers in the PRC that were capable of manufacturing 2000 model series or below to 4000 model series asphalt mixing plants on a mass production scale. In 2013, of the total number of 950 units of asphalt mixing plants manufactured in the PRC and sold by domestic and international asphalt mixing plant manufacturers, 652 units or approximately 68.6% were small scale asphalt mixing plants, according to the CCID Report. There is intense price competition in this market because of the relatively low technical barriers to entry to this market. In addition to price competition, manufacturers may compete against each other in this market based on the technical capabilities to manufacturing such plants, reliability of the plants as well as comprehensive services.

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

Key Drivers

Maintenance of roads has become increasingly important

The PRC has sustained almost 20 years of rapid road construction. As a result, a nationwide major road network has been established, with a total mileage of more than 4.5 million km, where second grade highways or above account for approximately 15% of the total mileage. As the road mileage in the network has continued to increase, a progressively larger number of major roads are required periodic maintenance. For example, in the Eleventh Five-Year Plan, the total national funding provided for road maintenance works was approximately RMB801.1 billion, resulting in 550,000 km of road reconstruction works, 167,000 km of large-scale road repair works and 364,000 km of mid-scale road repair works were completed. In the Twelfth Five-Year Plan – Development Outline of Highway Maintenance Management (《「十二五」公路養護管理發展綱要》), road maintenance is prioritised, and road maintenance is emphasised as one of the paramount requirements of the Plan. This is reinforced by policies to establish stable funding sources for road maintenance, to increase maintenance investments, to strengthen road maintenance and protection in order to fully utilise the existing road infrastructure. It is targeted that between 2011 and 2015, the road mileage of highways of national and provincial levels on which medium to large scale repair works are procured should account for not less than 17% of the total mileage.

INDUSTRY OVERVIEW

Environmental protection has become an important strategy for industrialisation and modernisation of the PRC

Conservation of resources and the establishment of an environmental friendly society have been placed at the forefront of the PRC’s strategies concerning industrialisation and modernisation. The Transportation “Twelfth Five-year” Development Planning* (《交通運輸「十二五」發展規劃》), research in promotion of resource and energy conservation, as well as developing technology for environmental friendly maintenance methods are encouraged. These aims in turn facilitate the regeneration of pavement materials that would otherwise be wasted, such as RAP, and its application in road construction. The Twelfth Five-year Plan – Development Plan for Transportation also aims to reduce emissions in road maintenance work to minimise negative impacts on the environment. Goals have been set for a 40% utilisation rate for recycled asphalt pavement materials for road maintenance in all of the PRC; 70% for highways at national and provincial levels, and 90% for expressways by 2015. The Ministry of Transport released the Guidance on Promoting Road Pavement Material Recycling* (《交通運輸部關於加快推進公路路面材料循環利用工作的指導意見》) (the “**Guideline**”). issued by the Ministry of Transport in 2012 requires local transportation departments to formulate a scientific working program to clarify the objectives, key tasks and measures relating to reclaiming and recycling of used pavement materials, targeting at achieving approximately “zero wastage” of used pavement materials in the PRC by the end of 2015; at least 95% of used pavement materials should be reclaimed; at least 50% of the used pavement materials should be recycled, whereby the recycling rate in the eastern, middle and western regions of the PRC should be at least 60%, 50% and 40%, respectively by 2015. The Guideline further provides that the recycling rate of the used pavement materials in the PRC should be at least 90% by 2020. These PRC government policies, together with the increasingly strict requirements for environmental protection and energy conservation in the PRC, are expected to lead to an increase in demand for Recycling Plants.

Great potential for road construction and maintenance machinery market to develop in the Midwest and rural areas of the PRC

The infrastructure is less developed in the Midwest and rural areas in the PRC. Development of highways usually goes through three stages. In the first stage, the focus is mainly on the construction of highways and there is less road maintenance work. In the second stage, road construction and maintenance will be treated with equal importance. In the third stage, the focus will be mainly on road maintenance. The Midwest and rural areas in the PRC are still at the first stage of development of highways focusing on construction. This create great potentials for road construction and maintenance machinery manufacturers.

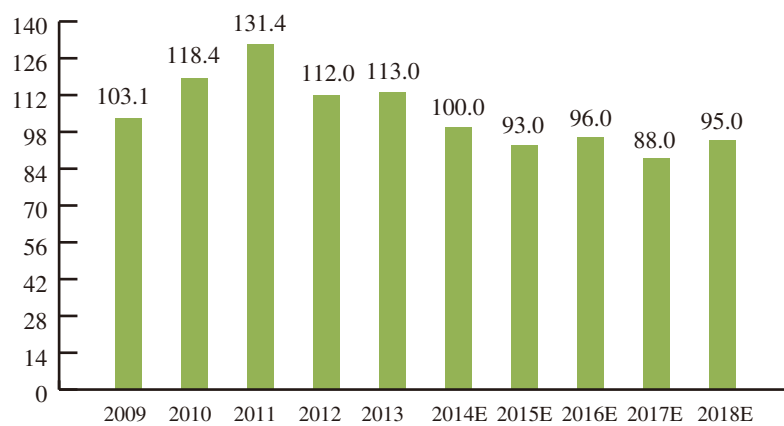
INDUSTRY OVERVIEW

PRICE MOVEMENTS OF STEEL AND ASPHALT

Prices of Steel

Steel is one of the major raw materials used in the manufacture of asphalt mixing plants. In the recent years, domestic steel prices have dropped. As there has been excess production of steel, prices have continued to drop. The following chart below shows the annual average domestic steel price index in the PRC between 2009 and 2013 and the estimated annual average domestic steel price index between 2014 and 2018:

Average Annual Domestic Steel Price Index in the PRC, 2009-2013, 2014E-2018E



Source: CCID Report

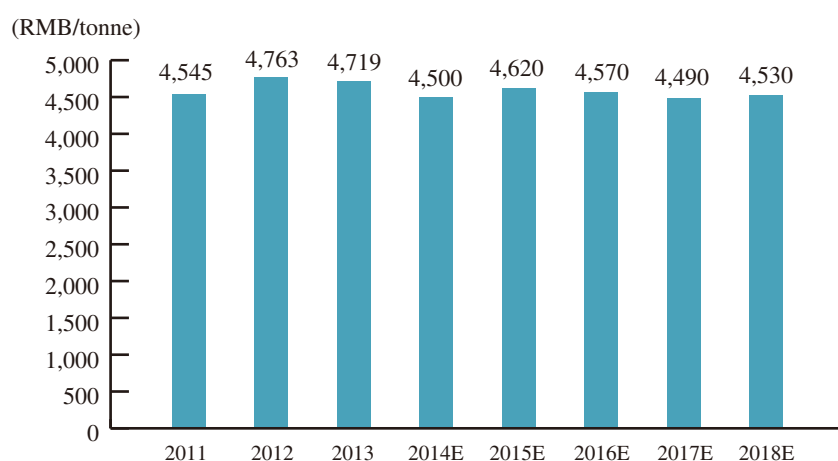
The main factor driving the steel prices is the price of imported iron ore. In recent years, Australia, the main country producing ore, has been increasing its production capacity of ore, which has led to a decline in international prices of iron ore. As such, it is expected that steel prices will continue to decrease in 2014 and 2015.

INDUSTRY OVERVIEW

Prices of Asphalt

The following chart sets out the average price of asphalt between 2011 and 2013 and the estimated average price of asphalt between 2014 and 2018 in the PRC:

Average price of asphalt in the PRC, 2011-2013, 2014E-2018E



Source: CCID Report

The road construction industry in the PRC is affected by both seasonal and regional factors. As a result, the domestic trading price of asphalt is also, to some extent, subject to variables. In the last two years, the West China Development Project and the revival of old industrial bases in Northeast China have boosted the demand for road infrastructure. Asphalt prices have correspondingly followed an upward trend. Between 2011 and 2012, the price of asphalt raw material (excluding Northwest China) in most areas of the PRC were between RMB4,300 per tonne to RMB4,900 per tonne. From 2014 to 2018, it is estimated that the price of asphalt materials will remain stable between RMB4,490 per tonne to RMB4,620 per tonne.

Barriers of Entry to the Market

Technology requirement

As the profit margin of small scale asphalt mixing plants is low and the sales price of such plants between different manufacturers are very close, it was an inevitable trend for manufacturers to move towards manufacturing medium to large scale asphalt mixing plants. However, the requirements on technical standards, production control and environmental protection in the medium to large scale asphalt mixing plants markets are very stringent. Due to the higher technical capabilities required for the manufacture of medium to large scale asphalt mixing plants associated with higher productivity, such as those relating to noise control and product reliability, only a small number of manufacturers with high research and development capabilities could compete in this market. These factors form obvious technical barriers to entry to the medium to large scale asphalt mixing plant market.

INDUSTRY OVERVIEW

High capital requirement

Asphalt mixing plant involves multiple subsystems and numerous core components. The domestic customers of medium to large scale asphalt mixing plant will usually request the manufacturers to import high-end components produced by international manufacturers to be used in the core system of the plants. Bulk purchase of imported components and longer repayment term may deter small scale manufacturers from entering the market as they may not have sufficient financial background to support this type of purchases.

In addition, because the road construction industry in the PRC is affected by both seasonal and regional factors, the orders from customers would also be affected by seasonality. Manufacturers with stronger capital strength would have a competitive advantage when it comes to purchases of raw materials, parts and components for the manufacture of asphalt mixing plants at times when there has been an increase in orders from customers due to seasonality.

Environmental protection requirement

The production process of asphalt mixtures may cause serious environmental pollution issues if the environmental control measures of the asphalt mixing plants do not meet the PRC national standards. The PRC government has imposed more stringent environmental protection requirements on the asphalt mixing plants. Only those manufacturers which possess the technology for developing energy saving and environmentally friendly asphalt mixing plants would be able to complete in this market. In contrast, small to medium enterprises would face strong challenges in manufacturing asphalt mixing plants that meet the environmental protection standards in the PRC.

LAWS AND REGULATIONS

This section sets forth a summary of the laws and regulations which have significant influence on our business and operations.

PRC LAWS AND REGULATIONS

Enterprises engaging in the business of manufacturing special equipment of road and bridge construction and maintenance, devices of asphalt mixture milling, devices of waste asphalt mixture recycling and milling, equipment of building waste treatment and resource recovery utilization as well as related spare parts and components in China are subject to a range of laws and regulations that govern their business activities.

PRC LAWS AND REGULATIONS ON THE EQUIPMENT MANUFACTURING INDUSTRY

In accordance with the Circular Economy Promotion Law of the PRC* (《中華人民共和國循環經濟促進法》), promulgated on 29 August 2009, and implemented on 1 January 2008, the State Council and the people’s governments of provinces, districts and municipalities shall set up funds designated for promoting circular economy to support the scientific and technical research and development regarding circular economy, demonstration and promotion of technologies and products regarding circular economy, the implementation of major circular economy projects, development of information service for circular economy. The State shall give tax preferences for industrial activities conducive to promoting circular economy, such as reduction, recycling and recovery activities conducted in the process of production, circulation and consumption. The government should also give priority to procuring products beneficial to environment protection and recycled products.

According to the Rules for the Implementation on Planning of Adjustment and Revitalization of Equipment Manufacturing Industry* (《裝備製造業調整和振興規劃實施細則》), promulgated and implemented on 12 May 2009, the State shall develop large-scale and cutting-edge construction machinery, prominently in large-scale tunnel boring machine, large-scale crawler crane and all terrain cranes, bridge girder erection machine, bituminous concrete milling and recycling equipment, in order to satisfy the development of transportation, energy, hydraulic engineering, real estate industries, et cetera.

In accordance with the Outline of the Twelfth Five-year Plan of National Economic and Social Development of the PRC* (《中華人民共和國國民經濟和社會發展十二五規劃綱要》), the Transportation “Twelfth Five-year” Development Planning* (《交通運輸「十二五」發展規劃》), and the Construction Machinery Industry “Twelfth Five-year” Development Planning* (《工程機械行業「十二五」發展規劃》), the Transportation “Twelfth Five-year” Development Planning* (《交通運輸「十二五」發展規劃》), the National Road Network Planning (2013-2030)* (《國家公路網規劃(2013-2030年)》), published in 2011, the State shall concentrate on increasing construction of road, public transportation in cities and towns, and infrastructure. Furthermore, material recycling technology, including which of asphalt and cement concrete pavement, is major field of technological achievements expanding and application.

In the light of the Supportive Field of National Major New Product Plan 2013* (《國家重點新品計劃支持領域—2013年》) and the Guidance on Accelerating Road Pavement Material Recycling* the Ministry of Transport released the Guidance on Promoting Road Pavement Material Recycling* (交通運輸部關於加快推進公路路面材料循環利用工作的指導意見) (the “Guideline”), promulgated in September 2012, “pavement recycling equipment and material” are listed as one of the projects of new products supported by the central government.

LAWS AND REGULATIONS

In addition, manufacturing special equipment of road and bridge construction and maintenance shall be conducted according to the technical specifications and procedures prescribed by the transport administrative department of the State Council, such as Technical Specifications for Forced Intermittent Asphalt Mixture Mixing Equipment* (《強制間歇式瀝青混合料攪拌設備技術標準》), Safety Requirements for Mechanical Equipment of Road Construction and Maintenance, Bitumen Mixture Equipments* (《道路施工與養護機械設備、瀝青混合料攪拌設備安全要求》), Technical Specifications for Maintenance of Highway Asphalt Pavement* (《公路瀝青路面養護技術規範》), Highway Asphalt Pavement Renewable Specifications* (《公路瀝青路面再生技術規範》).

PRC REGULATION ON FOREIGN INVESTMENT

According to the Catalogue for the Guidance of Foreign Investment Industries (2011 Revision)* (《外商投資產業指導目錄(2011年修訂)》) (hereafter refer to as “**the Catalog**”), which was amended on 24 December 2011 and with effect from 30 January 2012, our PRC subsidiary Langfang D&G is qualified as foreign invested enterprises engaging in manufacturing of road and bridge maintenance equipment and manufacturing of solid waste treatment and disposal equipment, which fall within the “Encouraged” category in the Catalog; Langfang D&G is engaging in manufacturing of asphalt and concrete mixing and paving equipment as well, which fall within the “Restricted” category in the Catalog, while manufacturing of asphalt and concrete milling and paving equipment was regarded as “Permitted” category in the Catalog before the amendment of the Catalog in 2011.

In addition, according to the replying letter with serial number FaGaiBan [2012] 2636, which issued by the National Development and Reform Commission on 14 September 2012, Langfang D&G has obtained approval to increase production capacity from 50 units to 85 units of asphalt mixing plants per year among which the additional 35 units should be Recycling Plants and the project of Recycling Plants of Langfang D&G falls within the “manufacturing of solid waste disposal equipment”; which is qualified as Class 3. Article 18. Item 58. of “Encouraged” category in accordance with the Catalog.

PRC REGULATIONS ON INTELLECTUAL PROPERTY

According to the Patent Law of the PRC* (《中華人民共和國專利法》), amended on 27 December 2008 and effective as from 1 October 2009, patent protection is divided into three categories, which are invention patent, utility model patent and design patent. Invention patents are valid for twenty years from the filing date, while design patents and utility model patents are valid for ten years from the filing date. After an invention patent, a utility model patent or a design patent is granted, except where otherwise provided for in the aforesaid law, no individual or entities may exploit the patent, namely, for production or commercial purposes, to manufacture, use, sale, or import of the product protected by such patent or otherwise engage in the manufacture, use, sale, or import of the product directly obtained from the said patented technology or method protected by such patent, without consent of the patent holder. Patent holders are obliged to pay annual fees commencing from the year in which the patent right is granted. Failure to pay the annual fees may result in the termination of the patent. The patent system in the PRC adopts the “first to file” principle, which means when more than one person files for a patent application for the same invention, the patent shall be granted to the person who files the application first.

LAWS AND REGULATIONS

In accordance with the Trademark Law of the PRC* (《中華人民共和國商標法》), which was amended on 30 August 2013 and effective as from 1 May 2014, the Trademark Office of the State Administration For Industry & Commerce of the PRC (hereafter refer to as the “TOSAIC”) is the supervisory authority responsible for the registration and administration of trademarks in the PRC. Upon verification and approval of the TOSAIC, trademarks that may be registered include commodity trademarks, service marks, collective marks, and certification marks. Trademark registrants are entitled to the exclusive right of their trademarks. The validity period of a registered trademark is ten years commencing from the day the registration is approved. If a registrant desires to continue using the registered trademark upon expiration of validity of period, an application for the renewal of registration shall be made within twelve months before the expiration of such period. If the renewal application is approved, the period of validity of trademark will be renewed for another ten years. A trademark registrant may license its registered trademark to another party by entering into a trademark licensing contract. Trademark license contracts should be registered with the TOSAIC.

According to the Copyright Law of the PRC* (《中華人民共和國著作權法》), amended on 26 February 2010, effective as from 1 April 2010, and the Regulations on Computer Software Protection* (《計算機軟件保護條例》), amended on 30 January 2013, effective as from 1 March 2013, in the PRC, software developed by PRC citizens, legal person or other organizations is automatically protected immediately after its development is completed, without application or approval. Software copyright may be registered with the designated government agency and if registered, the certificate of registration is issued by the software registration agency.

PRC ENTERPRISE INCOME TAX

In accordance with the Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》) (hereafter refer to as “EIT Law”), which was promulgated on 16 March 2007 and with effect from 1 January 2008, and the Implementation Rules To the Enterprise Income Tax Law* (《中華人民共和國企業所得稅法實施條例》), which was promulgated on 6 December 2007 and with effect from 1 January 2008, the income tax for both domestic and foreign-invested enterprises is at the same rate of 25%. Furthermore, resident enterprises, which refer to enterprises that are set up in accordance with the PRC laws, or that are set up in accordance with the laws of the foreign country (region) but with its actual administration institution in the PRC, shall pay enterprise income tax originating both within and outside the PRC. While non-resident enterprises that have set up institutions or premises in the PRC shall pay enterprise income tax in relation to the income originating from the PRC and obtained by their institutions or establishments, and the income incurred outside the PRC but there is an actual relationship with the institutions or establishments set up by such enterprises. Where non-resident enterprises that have not set up institutions or establishments in the PRC, or where institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments set up by such enterprises, they shall pay enterprise income tax in relation to the income originating from the PRC.

According to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises* (《中華人民共和國外商投資企業和外國企業所得稅法》), which invalid already, the Notice of the State Council on the Implementation of the Transitional Preferential Policy on Enterprise Income Tax* (《國務院關於實施企業所得稅過渡優惠政策的通知》) (GuoFa [2007] No. 39) and the Notice Concerning the Thorough Implementation of State Council

LAWS AND REGULATIONS

Directives on Issues Relevant to the Implementation of the Transitional Preferential Policy on Enterprise Income Tax* (《關於貫徹落實國務院關於實施企業所得稅過渡優惠政策有關問題的通知》) (CaiShui [2008] No. 21), which issued by Ministry of Finance and the SAT, manufacturing enterprises with foreign investment with more than 10 years operation period can enjoy preferential tax policy of “two-year exemption and three-year 50% reduces” since the profit-making year of the enterprise.

In addition, in accordance with the aforesaid EIT Law, high-technology enterprises that require key state support are subject to the reduced enterprise income tax at a rate of 15%.

According to the Circular on Further Specifying Issues Concerning the Implementation Standards of Enterprise Income Tax Incentives in Transitional Period* (《關於進一步明確企業所得稅過渡期優惠政策執行口徑問題的通知》), Where a resident enterprise is determined as the new high-technology enterprise and in the transitional period of the preferential regular reduction of taxation such as “two exemptions and three half reductions” and “five exemptions and five half reductions” of enterprise income tax as provided in Item 3, Article 1 of the Notice of the State Council on the Implementation of the Transitional Preferential Policy on Enterprise Income Tax, the applicable tax rate for such resident enterprise may be chosen in accordance with the applicable tax rate for transitional period and may adopt the “half reduction” taxation collection until the expiry of the same or choose to adopt the 15% tax rate for new high-technology enterprises without enjoyment of the half reduction of the 15% tax rate for tax collection.

PRC VALUE-ADDED TAX

In accordance with the Interim Regulations of the PRC on Value-Added Tax* (《中華人民共和國增值稅暫行條例》), effective as from 1 January 2009, all entities engaging in sales of products, providing processing, repairs and replacement services or importing goods to China are subject to value added tax (hereafter refer to as “VAT”). The applicable VAT rate for taxpayers selling or importing products, other than those falling in the categories subject to a VAT rate of 13%, is 17%.

PRC BUSINESS TAX

The Temporary Regulations on Business Tax* (《營業稅暫行條例》), which were promulgated by the State Council on 13 December 1993 with effective from 1 January 1994, and as amended on 10 November 2008 with effect from 1 January 2009, provide that entities and individuals must pay business tax if they are engaged in the provision of services in the transportation, construction, finance and insurance, post and telecommunication, culture and sports, entertainments and service industries as prescribed in Temporary Regulations on Business Tax, or the transfer of intangible assets or the sale of real estate within China.

PRC LAWS AND REGULATIONS ON DIVIDEND DISTRIBUTION

According to the Law of the PRC on Wholly Foreign-Owned Enterprises* (《中華人民共和國外資企業法》), which was effective as from 12 April 1986 and amended on 31 October 2000, foreign-invested enterprises may not distribute after-tax profits unless they have contributed to the funds as required by PRC laws and regulations and have set off financial losses of previous accounting years.

LAWS AND REGULATIONS

According to the EIT Law and its Implementation Rules, dividends paid to foreign investors are subject to a withholding tax rate of 10%, unless relevant tax agreements concluded by the PRC government provide otherwise.

The PRC and the government of Hong Kong on 21 August 2006 entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of the Fiscal Evasion with respect to the Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》). According to the Arrangement, the withholding tax rate on dividends paid by a PRC company to a Hong Kong resident is 5%, provided that such Hong Kong resident directly holds at least 25% of the capital in a PRC company, and 10% if the Hong Kong resident holds less than 25% of the capital in a PRC company. In order to claim for the beneficial treatment on the withholding tax rate for dividends at 5% under the Arrangement, a Hong Kong resident is required to be the beneficial owner of dividends received, which shall be subject to the assessment and approval of the competent PRC tax authorities based on relevant standards in determining beneficial ownership status under prevailing PRC tax regulations.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements* (《國家稅務總局關於執行稅收協議股息條款有關問題的通知》), which was promulgated and effective as from 20 February 2009, all of the following requirements shall be satisfied where a Chinese resident company pays dividends to a fiscal resident of the other party to a tax agreement, and the dividends obtained by the such a fiscal resident are intended to be entitled to treatment under the tax agreement:

- a) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement;
- b) owner’s equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and
- c) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

According to the Interim Administrative Measures on Tax Convention Treatments for Non-Residents* (《非居民享受稅收協議待遇管理辦法(試行)》), effective as from 1 October 2009, where a non-resident enterprise that receives dividends from a PRC resident enterprise in need of any tax convention treatment, it shall file an application for examination and approval of tax convention treatments with the competent tax authority. No non-residents failing to go through the formalities for examination and approval shall be entitled to tax convention treatments.

PRC LAWS AND REGULATIONS ON PRODUCTION SAFETY

In accordance with the Work Safety Law of the PRC* (《中華人民共和國安全生產法》) (hereafter refer to as the “**Work Safety Law**”), effective as from 1 November 2002 and amended on 31 August 2014, entities engaging in production are required to implement production safety measures as specified in the Work Safety Law and other relevant laws, administrative regulations, national standards and industry standards. Any entity that does not implement such measures for safe production is prohibited from engaging in production and business operation activities.

LAWS AND REGULATIONS

Entities are required to provide their employees with education and training on production safety. Entities must also provide their employees with protective gears that meet national and industry standards, as well as supervision and proper training to ensure their correct utilization.

PRC LAWS AND REGULATIONS ON ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》), amended on 24 April 2014 and with such amendment effective on 1 January 2015, pollution prevention infrastructures in the construction projects shall comply with the approved documents concerning environmental impact assessment, and shall be designed, built and commissioned together with the principal part of the project. Enterprises and institutions and other manufacturer and operators that discharge pollutants into the environment, shall take measures to prevent and control pollution and hazards caused to the environment by exhaust gas, waste water, waste residue, medical waste, dust, malodorous gases, radioactive substance, and noise, vibration, optical radiation, electromagnetic radiation generated in the course of production, construction and other activities. Enterprises and institutions that discharge pollutants shall establish environmental protection responsibility system and specify the responsibilities of the people-in-charge of the entities and relevant personnel. The enterprises are required to discharge pollutants in accordance with requirements of pollutant discharge license.

In accordance with the Environmental Impact Assessment Law of the PRC* (《中華人民共和國環境影響評價法》), promulgated on 28 October 2002 and effective as from 1 September 2009, and the Administration Rules on Environmental Protection of Construction Projects* (《建設項目環境保護管理條例》), which effective as from 29 December 1998, and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects* (《建設項目竣工環境保護驗收管理辦法》), which was promulgated on 27 December 2001 and became effective on 1 February 2002, require enterprises planning construction projects to engage qualified professional institution to provide assessment reports on the environmental impact of such projects. The assessment report must be approved by the competent environmental protection authorities prior to commencement of any construction work. Enterprises must file an application for examination and acceptance of the environmental protection facilities upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination.

PRC LABOUR LAWS AND REGULATIONS

According to the Labor Law of the PRC* (《中華人民共和國勞動法》), effective as from 1 January 1995 and amended on 27 August 2009, and the Labor Contract Law of the PRC* (《中華人民共和國勞動合同法》), promulgated on 29 June 2007 and came into force on 1 January 2008 and amended on 28 December 2012 with such amendment effective on 1 July 2013, labor contracts shall be concluded in writing when labor relationships are to be or have been established between enterprises or institutions and employees. When hiring employees, employers must faithfully inform the employees of the job responsibilities, working conditions, working place, occupational hazards, working safety status, remuneration and other information upon requested by the employees. Employers shall also fully pay the remuneration in a timely manner as provided in the employment contracts.

LAWS AND REGULATIONS

According to the Social Insurance Law of the PRC* (《中華人民共和國社會保險法》), effective from 1 July 2011, Regulation on Work-Related Injury Insurance* (《工傷保險條例》), Regulations on Unemployment Insurance* (《失業保險條例》), Interim Rules on Employee’s Maternity Insurance* (《企業職工生育保險試行辦法》), Interim Regulations on Administration of Social Insurance Registration* (《社會保險登記管理暫行辦法》), Interim Regulation on the Collection and Payment of Social Insurance Premiums* (《社會保險費徵繳暫行條例》), and relevant rules issued by government authorities and local governments from time to time, enterprises shall duly go through the formalities of registration of social insurance, which covers basic pension, basic medical, industrial injury, unemployment and maternity insurance. Employees shall participate in insurance packages including basic pension, basic medical and unemployment insurance. Both the employers and the employees shall pay premiums. Employees are also required to participate in industrial injury and maternity insurance, the contribution of which is the sole responsibility of the employers under the relevant laws.

According to the Regulations on the Management of Housing Provident Funds* (《住房公積金管理條例》), effective from 3 April 1999 and as amended on 24 March 2002, employers in the PRC shall register with the housing provident fund management center and open an housing fund account on behalf of its staff with a bank entrusted by the housing provident fund management center. The payment and deposit rates for housing provident fund of both staff and workers shall not be less than five percent of the average monthly salary of an individual staff member or worker in the previous year. Employers who fail to register and open the accounts may be ordered to complete the registration within a prescribed period by the competent management center, and shall be liable for a penalty within the range of RMB10,000 to RMB50,000 if they fail to register within the prescribed period.

PRC LAWS AND REGULATIONS ON FOREIGN EXCHANGE

The principal regulation governing foreign currency exchange in China is the Administrative Regulations of the PRC* on Foreign Exchange (《中華人民共和國外匯管理條例》), which was last amended and promulgated on 5 August 2008. According to this regulation, the state shall not impose any restrictions on international payments or transfers on current account. The income of foreign exchange of domestic institutions or individuals can be remitted back into the PRC or deposited overseas. Foreign exchange income and expense under the current account must be certificated by authentic and legitimate transactions. If overseas institutions or individuals propose to make a direct investment in China, they are required to obtain approval from SAFE and other relevant PRC governmental authorities. Capital account items, such as direct offshore investments or engagement in distribution or deal of overseas negotiable securities or derivative products by domestic institutions or individuals, foreign debts and foreign guarantee are not permitted without prior registration with SAFE.

In the light of the Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles* (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) which came into effect on 14 July 2014 and replaced Circular No. 75 (Huifa [2014] No. 37, hereafter refer to as “**Circular No. 37**”) and Operating Guideline for Relevant Business of Foreign Exchange Administration over Round-trip Investment (《返程投資外匯管理所涉業務操作指引》), the Annex of Circular No. 37 : a domestic resident shall, before contributing the domestic and overseas lawful assets or interests

LAWS AND REGULATIONS

to a special purpose vehicle, apply to the foreign exchange office of registration place, or the foreign exchange office of location of the domestic enterprise’s assets or interests for going through the procedures for registration; a domestic individual resident may establish a Special Purpose Vehicles (hereafter refer to as “SPV”) before the completion of the procedures for registration, however, such domestic individual resident is not allowed to contribute any capitals (including overseas contribution) to the SPV until the procedures for registration has been gone through, unless there is a requirement of paying (including overseas payment) the SPV’s registration fee, otherwise the registration procedures for such SPV shall be deemed as a supplementary registration. Simultaneously, a domestic individual resident can remit funds on the basis of true and legitimate demands, for the purpose of SPV establishment, share repurchase or delisting, et cetera.

Where registered SPV is to alter the basic information such as domestic residents’ individual shareholders, name, operating period, or major event where domestic resident individual is to alter the important issues such as capital increase, capital reduction, share transfer or exchange, the foreign exchange change registration of overseas investments shall be timely finished in the foreign exchange office. Furthermore, after overseas financing is completed by SPV, if the capital financed is repatriated to use, relevant provisions in connection with foreign investment and foreign debt administration in the PRC are a required to be obeyed. Foreign-funded enterprises set up with round-trip investment shall go through foreign exchange registration formalities according to the foreign exchange provisions on the foreign investor’s direct investment in effect, and truthfully disclose relevant information like actual controllers of shareholders, et cetera. If profits and bonus domestic residents obtained from special purpose company are to be repatriated to China, the foreign exchange administrative provisions on current account shall apply; if it is the foreign exchange earnings derived from capital changes that are to be repatriated, registration procedures shall subject to regulations on capital accounts.

SANCTIONS LAWS

Australian Sanction Laws

Australia maintains two categories of sanctions laws. The first category contains autonomous sanctions introduced unilaterally by Australia and these are set out in the *Autonomous Sanctions Act 2011* and *Autonomous Sanctions Regulations 2011*. The sanctions in the second category are based on resolutions of the UNSC that, when adopted by Australia, are included as regulations under the *Charter of the United Nations Act 1945*. The two categories of sanctions are administered by the Department of Foreign Affairs and Trade and are referred to collectively as “**Australian Sanction Laws**”.

With respect to Libya, the direct or indirect supply, sale or transfer of arms or arms related materiel, the provision of technical advice, assistance or training related to military activities, financial transactions with respect to illicitly exported crude oil from Libya, bunkering services and the procurement of arms or arms related materiel from Libya is restricted under Regulations 3 to 10, *Charter of the United Nations (Sanctions – Libya) Regulations 2011*.

On 1 September 2014, the Australian Government announced that sanctions would be implemented against Russia in the future. As at the Latest Practicable Date, this policy had not been legally implemented.

LAWS AND REGULATIONS

European Union Sanctions Laws

Under the E.U. sanctions, certain individuals, groups and entities are specifically targeted by financial sanctions, due to their affiliation with a particular foreign government or former government, alleged or confirmed human rights abuses, or apparent participation in illicit or undesirable behaviour (“**Designated Persons**”, and each a “**Designated Person**”).

The E.U. Sanctions against Libya impose an arms embargo (including equipment which might be used for internal repression), with prohibitions on related technical assistance, financing or financial assistance and brokering services, financial sanctions against Designated Persons and travel restrictions on certain individuals.

The Libya (Restrictive Measures) (Overseas Territories) Order 2011 respectively extended the application of E.U. sanctions against Libya to the British Overseas Territories including the Cayman Islands where our Company is incorporated and the BVI where Rich Benefit is incorporated. Norton Rose, our legal adviser as to E.U. sanctions is of the opinion that E.U. sanctions extend outside the E.U. only by way of the actions of E.U. citizens and E.U. companies (and aircraft/vessels). E.U. sanctions in principle do not apply to non-E.U. subsidiaries of E.U. companies, including Langfang D&G.

Since 5 March 2014, the E.U. has imposed a number of sanctions related to Russia and the Ukraine. Further sanctions relating to the importation of goods into the E.U. from Crimea and Sevastopol were implemented in June 2014. Since 31 July 2014, further “sectoral” sanctions have been implemented against the Russian financial, energy and defence sectors. The relevant E.U. Regulations have been amended a number of times during the course of 2014.

The current E.U. sanctions against Russia comprise the following restrictions:

- (a) Financial sanctions against Designated Persons including:
 - (i) freezes on funds and economic resources belonging to, owned, held or controlled by Designated Persons; and
 - (ii) prohibitions on making funds or economic resources available, directly or indirectly, to or for the benefit of Designated Persons.
- (b) Restrictions on supplies to Russia (including its Exclusive Economic Zone and Continental Shelf) or to any other state for use in Russia, of certain specified equipment for the oil and gas industry (listed in Annex II to Council Regulation 833/2014), together with related restrictions on brokering services, technical assistance and financing/financial assistance. There is a general prohibition on such supplies where they are for exploration and production projects in Russia, including its Exclusive Economic Zone and Continental Shelf, of the following kinds:
 - (i) oil exploration and production in waters deeper than 150 metres;
 - (ii) oil exploration and production in the offshore area north of the Arctic Circle; or

LAWS AND REGULATIONS

- (iii) projects that have the potential to produce oil from resources located in shale formations by way of hydraulic fracturing (but not exploration and production through shale formations to locate or extract oil from non-shale reservoirs).
- (c) Restrictions on supplies to any person or entity in Russia (including its Exclusive Economic Zone and Continental Shelf) or in any other State if for use in Russia, of certain specified equipment for the oil industry, together with related restrictions on brokering services, technical assistance and financing/financial assistance. There is a general prohibition on such supplies where they are for exploration and production projects in Russia, including its Exclusive Economic Zone and Continental Shelf, of the following kinds:
 - (i) oil exploration and production in waters deeper than 150 metres;
 - (ii) oil exploration and production in the offshore area north of the Arctic Circle; or
 - (iii) projects that have the potential to produce oil from resources located in shale formations by way of hydraulic fracturing (but not exploration and production through shale formations to locate or extract oil from non-shale reservoirs).
- (d) Prohibition on the following “associated services” that are necessary for the oil exploration and production projects described in (c) above: drilling; well testing; logging and completion services; supply of specialised floating vessels.
- (e) Arms embargo, which also includes a prohibition on supplies of “dual-use” items to Russia or for use in Russia where the items are or may be intended for military end-uses or end-users, with prohibitions on related brokering services, technical assistance and financing/financial assistance. Dual-use items are those which may have military or civil applications. There is also a prohibition of supplies of dual-use items to certain designated Russian defence companies, with prohibitions on related brokering services, technical assistance and financing/financial assistance.
- (f) Prohibitions on directly or indirectly purchasing, selling, providing investment services for or assistance in the issuance of, or otherwise dealing in transferable securities and money-market instruments with a maturity exceeding 30 days issued after 12 September 2014 by certain designated entities of the following kinds:
 - (i) major credit institutions, or other major institutions having an explicit mandate to promote competitiveness of the Russian economy, its diversification and encouragement of investment, established in Russia with over 50% public ownership or control as of 1 August 2014 (currently designated are Sberbank, VTB Bank, Gazprombank, Vnesheconombank (VEB) and Rosselkhozbank). For these entities (and those relating to them described in (iv) and (v) below) there is also a prohibition regarding transferable securities and money-market instruments with a maturity exceeding 90 days issued between 1 August and 12 September 2014;

LAWS AND REGULATIONS

- (ii) entities established in Russia predominantly engaged and with major activities in the conception, production, sales or export of military equipment or services, except those in the space or the nuclear energy sectors (currently designated are OPK Oboronprom, United Aircraft Corporation and Uralvagonzavod);
 - (iii) entities established in Russia, which are publicly controlled or with over 50% public ownership and having estimated total assets of over 1 trillion Russian Roubles and whose estimated revenues originate for at least 50% from the sale or transportation of crude oil or petroleum products (currently designated are Rosneft, Transneft and Gazprom Neft);
 - (iv) entities established outside the E.U. whose proprietary rights are directly or indirectly owned more than 50% by any of (i), (ii) or (iii) above; or
 - (v) entities acting on behalf or at the direction of an entity referred to in (i), (ii), (iii) or (iv) above.
- (g) Prohibition on directly or indirectly making or being part of any arrangement to make new loans or credit with a maturity exceeding 30 days to any entity referred to in (f) above after 12 September 2014, except for:
- (i) loans or credit that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the E.U. and any third State, including the expenditure for goods and services from another third State that is necessary for executing the export or import contracts;
 - (ii) loans that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for legal persons established in the Union, whose proprietary rights are owned for more than 50% by any entity referred to in paragraph (f)(i) above; and
 - (iii) drawdowns or disbursements made under a contract concluded before 12 September 2014, where (A) all the terms and conditions¹ of such drawdown or disbursements were agreed before 12 September 2014 and have not been modified on or after that date; and (B) before 12 September 2014 a contractual maturity date has been fixed for the repayment in full of all funds made available and for the cancellation of all the commitments, rights and obligations under the contract.
- (h) Restrictions on trade relating to Crimea and Sevastopol, including prohibitions on:
- (i) imports into the E.U. of goods originating in Crimea or Sevastopol and related financial assistance;
 - (ii) real estate investments in Crimea or Sevastopol;

LAWS AND REGULATIONS

- (iii) investments in and financing of entities in Crimea or Sevastopol (including joint ventures with entities in Crimea or Sevastopol) and related investment services;
 - (iv) supplies to Crimea or Sevastopol or for use there of certain goods and technologies for use in transport, telecommunications, energy or the prospecting, exploration and production of oil, gas and mineral resources, and related technical assistance, brokering services and financial assistance;
 - (v) provision of technical assistance or brokering, construction or engineering services directly relating to infrastructure in Crimea or Sevastopol relating to the sectors mentioned in (iv) above;
 - (vi) provision of services directly related to tourism activities in Crime or Sevastopol, and entry of cruise ships into certain ports in the Crimean Peninsula.
- (i) Travel restrictions on certain individuals.

United States Sanctions Laws

U.S. sanctions are, for the most part, administered by the Office of Foreign Assets Control (OFAC). U.S. sanctions against Libya are limited to “list-based sanctions”, which block all property and interests in property in the U.S. or in the possession of “U.S. persons” that belong to individuals, entities or governments on the “Specially Designated Nationals (SDN) List” or entities owned, directly or indirectly, 50% or more by an SDN or SDNs or persons/entities acting on their behalf. U.S. sanctions against Russia contain both list-based sanctions and also certain “sectoral” sanctions against the Russian financial, energy and defence sectors.

The list-based sanctions, including those against Libya and Russia, apply to “U.S. Persons”, which includes:

- (a) U.S. citizens and permanent resident aliens;
- (b) any entity of any kind organised under U.S. law and their non-U.S. branches; and
- (c) any individual or entity in the United States.

In relation to Libya, *Executive Order 13566* of February 25 2011 blocked the property of certain persons listed in the Annex to the Order and also authorised the U.S. Treasury Department to block the property of persons determined to be senior officials of the Government of Libya, the children of Colonel Muammar Qadhafi, persons involved in the commission of human rights abuses related to political repression in Libya and persons who assist those involved in human rights abuses (as well as persons who are owned or controlled by, or acting on behalf of, a person whose property is blocked). *Executive Order 13566* also blocked all property of the Government of Libya, its agencies, instrumentalities, and controlled entities, and the Central Bank of Libya.

LAWS AND REGULATIONS

The restrictions imposed by *Executive Order 13566* have subsequently been loosened by a number of General Licences issued by OFAC, which permit certain prohibited activities. These licences reflect the changing political environment in Libya with the fall of the Qadhafi regime. *Inter alia* General Licence 11 (issued 16 December 2011) permits transactions in the property of the Government of Libya, its agencies, instrumentalities, and controlled entities, and the Central Bank of Libya, except for funds blocked as at 19 September 2011.

The U.S. regime against Russia/Ukraine is based in part on the following four Executive Orders:

- (a) *Executive Order 13660* (6 March 2014) authorised the blocking of property of persons involved in undermining democracy in Ukraine, threatening stability or territorial integrity in Ukraine, misappropriation of Ukraine state assets, and other similar activities (as well as persons who assist those whose property is blocked, or who are owned or controlled by, or acting on behalf of, a person whose property is blocked).
- (b) *Executive Order 13661* (17 March 2014) blocked the property of certain individuals annexed to the Order and also authorised the blocking of property of persons determined to be officials of the Russian government or operating in the arms or related materiel sector in Russia (as well as persons who assist those whose property is blocked, or who are owned or controlled by, or acting on behalf of, a person whose property is blocked).
- (c) *Executive Order 13662* (20 March 2014) broadly authorised the imposition of sanctions on persons operating “*in such sectors of the Russian Federation economy as may be determined by the Secretary of the Treasury...such as financial services, energy, metals and mining, engineering, and defense and related materiel*” (as well as persons who assist those whose property is blocked, or who are owned or controlled by, or acting on behalf of, a person whose property is blocked).
- (d) *Executive Order 13685* (19 December 2014) prohibits new investment in the Crimea by a U.S. person; the importation into the U.S., directly or indirectly, of any goods, services, or technology from the Crimea; the exportation, re-exportation, sale, or supply, directly or indirectly, from the U.S., or by a U.S. person of any goods, services, or technology to the Crimea; and facilitation by U.S. persons of transactions by non-U.S. persons that would breach these prohibitions if carried by a U.S. person or within the U.S.. This Executive Order also authorised the blocking of property of persons determined to operate in the Crimea or to be a leader of an entity operating in the Crimea (as well as persons who assist those whose property is blocked, or who are owned or controlled by, or acting on behalf of, a person whose property is blocked).

Executive Order 13662 was subsequently implemented through four directives. Directives 1 and 2 (issued on 16 July 2014 and later amended on 12 September 2014), introduced limited sanctions on certain companies in the Russian finance and energy sectors by prohibiting U.S. persons from engaging in or providing services relating to certain kinds of debt transactions (Directives 1 and 2) and equity transactions (Directive 1 only) with them. Directive 3 (issued on 12 September 2014) expanded the prohibitions on debt transactions to include certain Russian defence companies.

LAWS AND REGULATIONS

Directive 4 (issued on 12 September 2014) introduced prohibitions on the following activities by U.S. persons or within the U.S.: the provision, exportation or re-exportation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory, and which involve persons subject to Directive 4.

In addition, on 18 December 2014, the U.S. President enacted the Ukraine Freedom Support Act of 2014 (“UFSA”), which authorises the imposition of further sanctions on Russia as follows:

- (a) To impose certain specified sanctions on:
 - (i) Rosoboronexport, any Russian entities which transfer or broker the transfer of military items to Syria, Georgia, Ukraine or Moldova or other countries specified by the U.S. government, or which knowingly manufacture/sell military items transferred to such countries, and any non-U.S. person who supports such Russian entities with respect to such activities;
 - (ii) any non-U.S. person who knowingly makes a significant investment in a “special Russian crude oil project”; and
 - (iii) Gazprom, if the U.S. government determines that Gazprom is withholding significant natural gas supplies from member countries of NATO, or further withholds significant natural gas supplies from countries such as Ukraine, Georgia, or Moldova.

These sanctions include *inter alia* prohibitions on: the provision of military items, related services and dual-use items; U.S. persons dealing in certain debt and equity of the Sanctioned Person; and banking transactions subject to U.S. jurisdiction in which the Sanctioned Person has an interest.

- (b) To impose prohibitions or restrictions on correspondent accounts or payable-through accounts in the U.S. for non-U.S. financial institutions which: (i) knowingly engage in significant transactions involving activities described in (a) above for Sanctioned Persons; or (ii) has, on or after the date that is 180 days after the date of the enactment of the Act, knowingly facilitated a significant financial transaction on behalf of any Russian person included on the SDN List pursuant to the Act itself, Executive Orders 13660, 13661 or 13662 or any other Executive order addressing the crisis in Ukraine.

While the UFSA authorises the above sanctions, they are not currently in force and the U.S. President has stated that his administration has no current intention to impose sanctions under the UFSA.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR BUSINESS DEVELOPMENT

The history of our business can be traced back to 1999 when Beijing D&G was established by the Choi Family Founders using their own income and investment savings to manufacture and sell asphalt mixing plants in the PRC, conduct research and development, and provide various ancillary services. Prior to the establishment of Beijing D&G, our co-founder, chairman and executive Director, Mr. Choi, had been engaged in the import and distribution of European and American branded specialised engineering equipment, such as equipment for precision concrete placing and levelling, machines used in sanitary landfills, asphalt mixing plants, equipment for utility installation projects, and machineries used in agriculture and farming, in Hong Kong and the PRC for over 12 years. For details about the experience of Mr. Choi and the other Choi Family Founders, please refer to the section headed “Directors, Senior Management and Staff – Directors” in this document.

In order to better and more efficiently serve our customers in Southern China and to take advantage of the preferential enterprise income tax then offered to foreign invested enterprise, we established our second manufacturing facility in Shenzhen in 2003 and branched out from our Beijing facility to our Shenzhen facility (i) the manufacturing, sale and research and development of electronic control room facilities (which is one of the key components of our asphalt mixing plants); and (ii) the provision of after-sales services, to serve our customers in Southern China.

In 2006, in view of (i) the increasing market demand for asphalt mixing plants, (ii) our strategic plan to further expand our business; and (iii) the fact that our Beijing and Shenzhen manufacturing facilities were already heavily utilised at that time, we established our third manufacturing facility, which was larger than the Beijing facility and the Shenzhen facility combined in terms of floor space, in Langfang, Hebei Province. We then gradually transferred our various manufacturing and research and development activities from Beijing D&G to Langfang D&G. In order to take advantage of the economies of scale in manufacturing and to streamline our corporate structure for more efficient and centralised management, we also gradually transferred our business in Shenzhen D&G back to Langfang D&G.

From June 2008 onwards, our Langfang manufacturing facility became the main manufacturing facility of our Group principally engaged in the manufacture and sale of asphalt mixing plants in the PRC, research and development, and the provision of various ancillary services while our Beijing facility concentrated on (i) the research and development of the electronic control room facilities; and (ii) the provision of after-sales services of our electronic control room facilities. In 2010, our leasing company, Tianjin D&G, was established in Tianjin to engage in the leasing of our asphalt mixing plants. As a result of the transfer of business activities from Shenzhen D&G to Langfang D&G, our Shenzhen facility had ceased to carry on any business since January 2013. For further information on Beijing D&G, Shenzhen D&G, Langfang D&G and Tianjin D&G, please refer to the paragraph headed “Our Corporate History” in this section.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Since our establishment in 1999, we have expanded our business both nationally and internationally. Set out below are our major business milestones and achievements:

Year	Event
1999	We established Beijing D&G and our first manufacturing facility in Beijing.
2003	We were the first in the PRC to develop and launch 4000 model series asphalt mixing plants into the market. We were the first in the PRC to develop and launch the Recycling Plants and Double Drum Recycling Plants with 15% and 50% designed RAP added capacity, respectively, into the market. We established Shenzhen D&G and our second manufacturing facility in Shenzhen.
2004	We successfully developed the “DG Leap” automated control system.
2006	We established Langfang D&G and our third manufacturing facility in Langfang, Hebei Province. We began exporting our asphalt mixing plants internationally to India and Australia.
2007	We began exporting our asphalt mixing plants to Saudi Arabia. We obtained the ISO9001:2008 Quality Management System certification.
2008	We obtained the PCT certification in Russia for our asphalt mixing plants and began exporting our plants to Russia.
2009	We were the first in the PRC to develop and launch the Recycling Plant and 5000 model series asphalt mixing plants into the market. We became the first asphalt mixing plant manufacturer in the PRC that had acquired CE mark for our asphalt mixing plants.
2010	We successfully developed and added a remote monitoring system to the “DG Leap” automated control system. This system allows us to remotely control and monitor the manufacturing process and diagnose any problem occurred therein through a wireless network. We obtained the ISO14001:2004 Environmental Management System certification. We began the leasing of our asphalt mixing plants through Tianjin D&G.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

<u>Year</u>	<u>Event</u>
2011	<p>Langfang D&G was recognised as a high-technology enterprise* (高新技術企業) jointly by the Hebei Provincial Department of Science and Technology* (河北省科學技術廳), Hebei Provincial Department of Finance* (河北省財政廳), Hebei Provincial Office of State Administration of Taxation* (河北省國家稅務局) and Hebei Local Taxation Bureau* (河北省地方稅務局).</p>
2012	<p>We began our collaboration with the Hong Kong University of Science and Technology R and D Corporation Limited to develop the thermal insulation panel for asphalt mixing plants.</p> <p>We became the Vice President of China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會) and the Executive Director of the Highway Construction Branch of the PRC Highway and Transportation Society* (中國公路學會築路機械分會常務理事單位).</p> <p>We began our collaboration with the Research Institute of Highway, Ministry of Transport (交通運輸部公路科學研究所) to demonstrate the use of new road recycling technology and equipment used to pave road surfaces.</p> <p>We began our collaboration with the Institute of Tsinghua University, Hebei (河北清華發展研究院) for the establishment of the Resources Recycling Intelligent Equipment Technology Institute, the Institute of Tsinghua University, Hebei and D&G* (河北清華發展研究院德基資源循環利用智能裝備技術研究所) to research and develop intelligent equipment and core, critical parts and processes that are environmental friendly.</p>
2013	<p>We obtained the OHSAS 18001:2007 Occupational Health and Safety Management System certification.</p> <p>We were named as the Top 30 Construction Machinery Manufacturers in the PRC* (中國工程機械製造商30強).</p> <p>We were appointed as the Vice President of the Highway Engineering Materials Branch of the China Association of Resource Comprehensive Utilization (now known as the PRC Association of Circular Economy)* 中國資源綜合利用協會 (現名為中國循環經濟協會)之公路工程材料循環利用分會.</p> <p>We were awarded the Golden Prize in the First Industrial Design Award in Hebei Province for our DG3000 recycling ring Recycling Plant.</p>

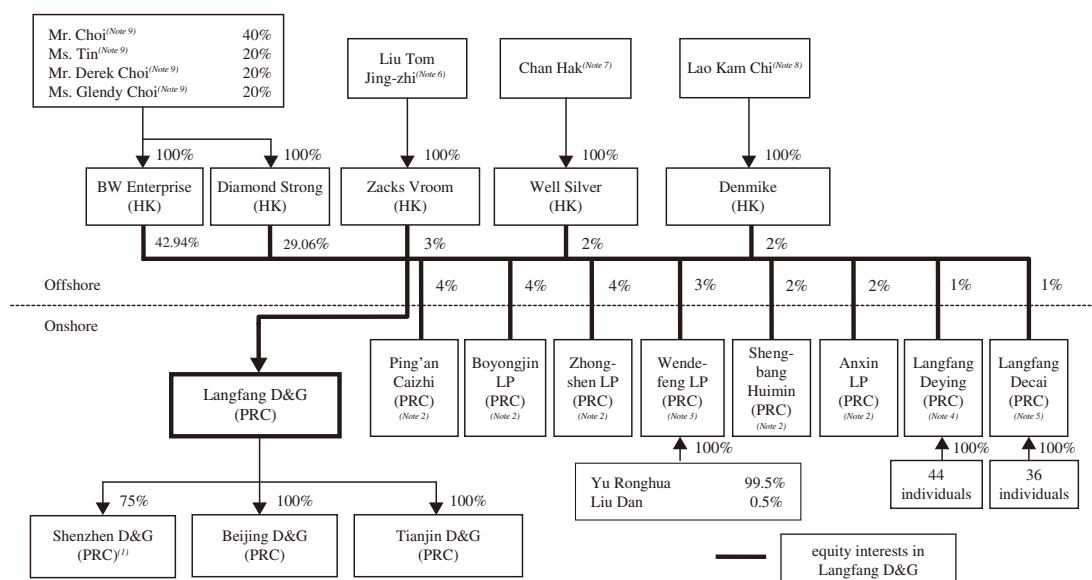
HISTORY, REORGANISATION AND CORPORATE STRUCTURE

<u>Year</u>	<u>Event</u>
2014	<p>We were the first in the PRC to develop and launch the Monoblock Recycling Plants into the market.</p> <p>We developed the bitumen foaming system for warm-mix asphalt mixture production.</p> <p>We officially established the Hebei Asphalt Pavement Intelligent Equipment Technology Research Centre* (河北省瀝青路面智能裝備工程技術研究中心) jointly with The Research Institute of Highway, the Ministry of Transport* (交通運輸部公路科學研究所) and the Institute of Tsinghua University, Hebei* (河北清華發展研究院) to research on areas including new Recycling Plants, RAP recycling and warm mix process, new mixing plants with recycling and environment friendly features and new multifunctional mixing plants.</p>

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR CORPORATE HISTORY

The following chart sets forth the corporate and shareholding structure of our Group immediately prior to the Reorganisation:



Notes:

- Immediately prior to the Reorganisation, 25% of the equity interests in Shenzhen D&G was held by Treasure Merger Holdings Limited (溢豐集團有限公司), a limited liability company incorporated in Hong Kong which was held as to 40%, 20%, 20% and 20% by the Choi Family Founders, respectively.
- Each of Ping'an Caizhi, Boyongjin LP, Zhongshen LP, Shengbang Huimin and Anxin LP is a private equity investor in the PRC and an Independent Third Party.
- Wendefeng LP is owned as to 99.5% and 0.5% by Mr. Yu Ronghua, our executive Director, and Mr. Liu Dan, an Independent Third Party.
- Prior to the Reorganisation, Langfang Deying was wholly-owned by 44 PRC employees of our Group who were Independent Third Parties. On 3 November 2014, one of these 44 PRC individual shareholders of Langfang Deying transferred his entire equity interest in Langfang Deying to one of the remaining 43 PRC individual shareholders of Langfang Deying. As a result, Langfang Deying became wholly-owned by 43 PRC employees of our Group who are Independent Third Parties. These 43 PRC individuals are the same group of people holding BVI-DY after the Reorganisation. Langfang Deying is an Independent Third Party.
- Prior to the Reorganisation, Langfang Decai was wholly-owned by 36 PRC employees of our Group who were Independent Third Parties. On 3 November 2014, two of these 36 PRC individual shareholders of Langfang Decai transferred all of their entire equity interests in Langfang Decai to one of the remaining 34 PRC individual shareholders of Langfang Decai. As a result, Langfang Decai became wholly-owned by 34 PRC employees of our Group who are Independent Third Parties. These 34 PRC individuals are the same group of people holding BVI-Decai after the Reorganisation. Langfang Decai is an Independent Third Party.
- Mr. Liu Tom Jing-zhi is our executive Director and the son-in-law of Mr. Choi's elder brother.
- Mr. Chan Hak is the sole director of Well Silver and the younger brother of Mr. Lewis Chan, our non-executive Director.
- Mr. Lao Kam Chi is our executive Director.
- Mr. Choi is the spouse of Ms. Tin and the father of Mr. Derek Choi and Ms. Glendy Choi. Ms. Tin is the mother of Mr. Derek Choi and Ms. Glendy Choi. Mr. Derek Choi and Ms. Glendy Choi are siblings.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following paragraphs describe the corporate history of our major operating entities from their respective incorporation dates up to the time immediately prior to the Reorganisation:

Langfang D&G

Langfang D&G was established in the PRC as a wholly-foreign owned enterprise on 21 August 2006 by Lucky Gain Holdings Limited (祥旺控股有限公司) (“**Lucky Gain**”), a limited liability company incorporated in the BVI and indirectly owned by the Choi Family Founders as to 40%, 20%, 20% and 20%, respectively. On the date of establishment, Langfang D&G had an initial registered capital of HK\$10,000,000 which was fully-paid up on 29 March 2007. BW Enterprise, which was also indirectly owned by the Choi Family Founders as to 40%, 20%, 20% and 20%, respectively, acquired the entire equity interests in Langfang D&G from Lucky Gain on 5 March 2008 at a consideration of HK\$10,000,000 which was determined based on the then registered capital of Langfang D&G, to take advantage of the lower withholding tax rate offered to Hong Kong shareholders at that time (as compared to that imposed on BVI shareholders). BW Enterprise subsequently increased the registered capital of Langfang D&G from HK\$10,000,000 to HK\$30,000,000 on 30 August 2010. The registered capital of Langfang D&G was fully paid-up on 16 November 2010.

On 24 December 2010, Langfang D&G acquired all the assets and liabilities of Langfang Chuangfu Machinery Company Limited* (廊坊創富機械有限公司) (“**Chuangfu Machinery**”), a limited liability company established in the PRC and 100% held by Diamond Strong at that time, in consideration for the transfer by BW Enterprise to Diamond Strong of 36.32% equity interests in Langfang D&G (the “**Merger**”). Such consideration was determined based on the percentage of Diamond Strong’s paid-up capital contribution in Chuangfu Machinery over the entire registered capital of Langfang D&G after the Merger. The Merger was properly and legally completed on 24 December 2010. As a result of the Merger, the registered capital of Langfang D&G was increased from HK\$30,000,000 to HK\$47,112,970 and Langfang D&G was held as to 63.68% and 36.32% by BW Enterprise and Diamond Strong, respectively. At the time of the Merger, each of BW Enterprise and Diamond Strong was indirectly owned by the Choi Family Founders as to 40%, 20%, 20% and 20%, respectively.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

In order to raise capital to further expand our business, the Choi Family Founders introduced a number of investors to invest in Langfang D&G at a premium (which was then credited to the capital reserve of Langfang D&G) between February 2011 and May 2011. As a result, the indirect equity interests of the Choi Family Founders in Langfang D&G was reduced to 72%. Details of the capital contribution and shareholding interests in Langfang D&G as at 30 May 2011 are set out in the table below:

No.	Shareholders	Total contribution credited to capital reserve as at 30 May 2011 <i>(approximately in HK\$)</i>	Total contribution to registered capital as at 30 May 2011 <i>(in HK\$)</i>	Equity interests held in Langfang D&G
1	BW Enterprise ^(Note 1)	–	25,288,704.00	42.94%
2	Diamond Strong ^(Note 1)	–	17,112,970.00	29.06%
3	Ping’an Caizhi ^(Note 2)	20,539,653.70 ^(Note 8)	2,355,648.00	4.00%
4	Boyongjin LP ^(Note 2)	20,539,653.70 ^(Note 8)	2,355,648.00	4.00%
5	Zhongshen LP ^(Note 2)	10,269,826.84 ^(Note 8)	2,355,648.00	4.00%
6	Zacks Vroom ^(Note 3)	1,943,407.95	1,766,734.50	3.00%
7	Wendefeng LP ^(Note 4)	1,943,407.95	1,766,734.50	3.00%
8	Denmike ^(Note 5)	1,295,605.30	1,177,823.00	2.00%
9	Well Silver ^(Note 6)	–	1,177,824.00	2.00%
10	Shengbang Huimin ^(Note 2)	–	1,177,824.00	2.00%
11	Anxin LP ^(Note 2)	–	1,177,824.00	2.00%
12	Langfang Decai ^(Note 7)	647,802.65	588,911.50	1.00%
13	Langfang Deying ^(Note 7)	647,802.65	588,911.50	1.00%
	Total	57,827,160.74	58,891,205.00	100.00%

Notes:

- (1) As at 30 May 2011, BW Enterprise and Diamond Strong were both indirectly wholly-owned by the Choi Family Founders as to 40%, 20%, 20% and 20%, respectively.
- (2) Each of Ping’an Caizhi, Boyongjin LP, Zhongshen LP, Shengbang Huimin and Anxin LP was a private equity investor in the PRC and an Independent Third Party.
- (3) As at 30 May 2011, Zacks Vroom was wholly-owned by Mr. Liu Tom Jing-zhi, our executive Director.
- (4) As at 30 May 2011, Wendefeng LP was owned as to 99.5% by Mr. Yu Ronghua, our executive Director, and 0.5% by Mr. Liu Dan, an Independent Third Party.
- (5) As at 30 May 2011, Denmike was wholly-owned by Mr. Lao Kam Chi, our executive Director.
- (6) As at 30 May 2011, Well Silver was wholly-owned by Mr. Chan Hak, the director of Well Silver and the younger brother of Mr. Lewis Chan, our non-executive Director.
- (7) As at 30 May 2011, Langfang Decai and Langfang Deying were respectively wholly-owned by 40 and 21 PRC employees of our Group who were Independent Third Parties.
- (8) Such amount of capital reserve was injected in RMB and converted into HK\$ based on an exchange rate of RMB1:HK\$0.8386.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

To prepare for a listing on a stock exchange in the PRC, Langfang D&G was converted from a limited liability company to a joint stock company on 30 June 2011 with a registered capital of RMB60,000,000 divided into 60,000,000 shares of RMB1.00 each. On 17 September 2012, Langfang D&G further increased its registered capital from RMB60,000,000 to RMB156,000,000 by capitalising its capital reserves and issuing new shares to its shareholders on a pro-rata basis. As a result, the respective shareholdings of the shareholders of Langfang D&G remained unchanged from 30 May 2011 to the time immediately prior to the Reorganisation.

In November 2012, Langfang D&G submitted an application to the CSRC for the listing of its A shares on the Shanghai Stock Exchange (“**A Share Listing Application**”). However, after considering the long application processing time as a result of the substantial number of companies which have submitted listing applications to the CSRC and were waiting for the CSRC to review and process, we decided not to further proceed with the A Share Listing Application. Pursuant to an announcement dated 4 April 2014 issued by the CSRC, the CSRC will cease to review a listing application if the financial information set out therein has expired for more than three months. As we did not continue to update the financial information in our listing application as required by the CSRC, the CSRC ceased to review our A Share Listing Application and so notified us in writing on 1 July 2014. Up to the date of such notice, we had not received any enquiry from the CSRC regarding our A Share Listing Application.

Langfang D&G is our major operating subsidiary principally engaged in the (i) manufacturing and sale of asphalt mixing plants; and (ii) provision of equipment modification services and sale of machinery components and parts for our asphalt mixing plants.

Tianjin D&G

Tianjin D&G was established in the PRC as a wholly-foreign owned enterprise on 27 August 2010 with an initial registered capital of HK\$3,000,000 which was fully-paid up on 30 November 2010. The entire equity interests in Tianjin D&G was held by BW Enterprise, which was then indirectly owned by the Choi Family Founders as to 40%, 20%, 20% and 20%, respectively. On 6 December 2010, BW Enterprise transferred the entire equity interests of Tianjin D&G to Langfang D&G at a consideration of HK\$3,000,000 (being the registered capital of Tianjin D&G) and Tianjin D&G was converted into a domestic company wholly-owned by Langfang D&G on the same day with a registered capital of RMB2,563,680.

Tianjin D&G is principally engaged in the leasing of our asphalt mixing plants through operating leases.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Excluded Companies

Shenzhen D&G

Shenzhen D&G was established in the PRC on 2 April 2003 as a limited liability company. Immediately prior to the Reorganisation, Shenzhen D&G was a limited liability company held as to 75% by Langfang D&G and 25% by Treasure Merger Holdings Limited (溢豐集團有限公司), a limited liability company incorporated in Hong Kong and held as to 40%, 20%, 20% and 20% by the Choi Family Founders, respectively. Shenzhen D&G had a registered capital of RMB3,000,000 which was fully-paid up. Shenzhen D&G was engaged in (i) the manufacturing, sale and research and development of electronic control room facilities (which is one of the key components of our asphalt mixing plants); and (ii) the provision of after-sales services, to serve our customers in Southern China.

In order to take advantage of the economies of scale in manufacturing and to streamline our corporate structure for more efficient and centralised management, the business of Shenzhen D&G was gradually transferred to Langfang D&G. Since January 2013, Shenzhen D&G had ceased to carry on any business and was deregistered on 30 September 2014 as part of the Reorganisation. For details of the deregistration, please refer to the paragraph below headed “Reorganisation – 2. Deregistration of Shenzhen D&G and acquisition of equity interests in Langfang D&G by DGHK” in this section.

Beijing D&G

Beijing D&G was established in the PRC on 5 February 1999 as a domestic limited liability company with a registered capital of RMB5,000,000 by five PRC individuals who were employees of other companies owned by the Choi Family Founders and/or friends or relatives of the Choi Family Founders. The five PRC individuals were acting as trustees for the Choi Family Founders in establishing Beijing D&G. Although the business of Beijing D&G was not restricted to foreign investment at the time, the Choi Family Founders chose to establish and hold Beijing D&G through the five nominee holders as they thought it might be more convenient, in terms of the company establishment approval process and the organisation of operational matters such as the hiring of labour and procurement of equipment, that Beijing D&G be set up as a domestic company, and also because they were concerned that their venturing into the manufacture of asphalt mixing plants in the PRC might raise concerns among the specialised engineering equipment manufacturers whose products the Choi Family Founders were importing and distributing in the PRC about the Choi Family Founders’ dedication and allocation of resources to the import and distribution business. Accordingly, the Choi Family Founders provided the funds needed for the establishment of Beijing D&G to the five PRC individuals and entrusted the individuals to establish and hold the equity interests in Beijing D&G on trust for the Choi Family Founders. As advised by our PRC Legal Adviser, the trust arrangements were valid and legally binding among the parties and did not violate any PRC laws and regulations.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

By the end of 2000, Beijing D&G had already sold its first asphalt mixing plant to the market. As Beijing D&G began to receive more purchase orders in 2001, in order to enjoy the preferential enterprise income tax then offered to foreign invested enterprises, the Choi Family Founders felt that it was an appropriate time to convert Beijing D&G from a domestic limited liability company to a wholly foreign-owned enterprise. On 7 June 2001, Beijing D&G was converted into a wholly foreign-owned enterprise when the PRC individual nominees of the Choi Family Founders transferred all their equity interests to Oriental Trading International Limited, a Hong Kong company which was then held by the spouses of Mr. Derek Choi and Ms. Glendy Choi on trust for the Choi Family Founders. At the same time, the registered capital of Beijing D&G was increased to RMB20,000,000.

In around 2003, the Choi Family Founders began to reduce the number of foreign equipment brands for which they acted as a distributor, such that by 2005, they acted as a distributor of certain utility installation equipment and agricultural and farming equipment of only one foreign brand. In November 2005, an indirect wholly-owned subsidiary of a company held as to 40%, 20%, 20% and 20% by the Choi Family Founders regained the legal title to the shares in Oriental Trading International Limited from the nominee holders.

On 28 July 2011, Oriental Trading International Limited transferred its entire equity interests in Beijing D&G to Langfang D&G at a consideration of RMB24,500,000 which was determined based on the net asset value of Beijing D&G as at 30 June 2011. The transfer was properly and legally completed and the consideration was fully settled on 1 August 2011. From 28 July 2011 until immediately prior to the Reorganisation, Beijing D&G was wholly-owned by Langfang D&G with a registered capital of RMB20,000,000 which was fully paid-up.

From its establishment in 1999 until the commencement of our operations in the Langfang manufacturing facility in August 2006, Beijing D&G was engaged in the manufacturing and sale of asphalt mixing plants, research and development and the provision of various ancillary services. From August 2006 to May 2008, the various manufacturing and research and development activities in Beijing D&G were gradually transferred from Beijing D&G to Langfang D&G. From June 2008 up until the establishment of the Beijing branch office of Langfang D&G in December 2014, Beijing D&G had only been engaged in the research and development, and the provision of after-sales services, of our electronic control room facilities. It continued to own the real properties of our previous manufacturing plant in Beijing which was no longer used by our Group. In mid-2013, the Li Yuan County Government in the Tongzhou District of Beijing notified Beijing D&G of the proposed demolition and relocation of such real properties and since then, Beijing D&G had been in discussions with the Li Yuan County Government regarding this matter.

As (i) the real properties in question were not required by our Group (ii) the negotiation with the Li Yuan County Government was expected to require time and effort on the part of Beijing D&G to complete and (iii) our research and development and after-sales services relating to the electronic control room facilities could be relocated to the Beijing branch office of Langfang D&G without any practical difficulty or material costs, Beijing D&G was excluded from our Group as part of the Reorganisation. For details about the exclusion, please refer to the paragraph headed “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 section below.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

REORGANISATION

In preparation for the listing of our Shares on the Stock Exchange, our Group underwent the Reorganisation. The main steps of the Reorganisation are summarised below:

1. Incorporation of various offshore companies

Incorporation of BVI-Fair Silver

BVI-Fair Silver was incorporated in the BVI as a limited liability company on 26 February 2014. It is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. Since the date of its first share allotment on 28 July 2014, it has been wholly-owned by Mr. Chan Hak, the sole director of Well Silver and the younger brother of Mr. Lewis Chan, our non-executive Director.

Incorporation of Rich Benefit

Rich Benefit was incorporated in the BVI as a limited liability company on 23 May 2014 and is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. Rich Benefit was held as to 40%, 20%, 20% and 20% by the Choi Family Founders, respectively, from the date of its first share allotment on 25 June 2014 up until immediately prior to the Reorganisation.

On 22 September 2014, the Choi Family Founders transferred their respective shares in Rich Benefit to our Company for an aggregate consideration of US\$4.00. As a result, Rich Benefit became a direct wholly-owned subsidiary of our Company.

Incorporation of DGHK

DGHK was incorporated in Hong Kong as a limited liability company on 7 July 2014 with a share capital of HK\$1,000 comprising 1,000 ordinary shares. It has been wholly-owned by Rich Benefit since the date of its incorporation and is an indirect wholly-owned subsidiary of our Company.

Incorporation of BVI-Prima DG

BVI-Prima DG was incorporated in the BVI as a limited liability company on 1 August 2014. It is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. Since its incorporation, BVI-Prima DG has been held as to 40%, 20%, 20% and 20% by the Choi Family Founders, respectively. The Choi Family Founders consist of Mr. Choi, Ms. Tin, Mr. Derek Choi and Ms. Glendy Choi. Mr. Choi is the spouse of Ms. Tin and the father of Mr. Derek Choi and Ms. Glendy Choi. Ms. Tin is the mother of Mr. Derek Choi and Ms. Glendy Choi. Mr. Derek Choi and Ms. Glendy Choi are siblings.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Incorporation of BVI-Zacks Vroom

BVI-Zacks Vroom was incorporated in the BVI as a limited liability company on 1 August 2014. It is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. Since its incorporation, BVI-Zacks Vroom has been wholly-owned by Mr. Liu Tom Jing-zhi, our executive Director who is also the son-in-law of Mr. Choi’s elder brother.

Incorporation of BVI-Denmike

BVI-Denmike was incorporated in the BVI as a limited liability company on 1 August 2014. It is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. Since its incorporation, BVI-Denmike has been wholly-owned by Mr. Lao Kam Chi, our executive Director.

Incorporation of BVI-Wonderful

BVI-Wonderful was incorporated in the BVI as a limited liability company on 1 August 2014. It is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. Since its incorporation, BVI-Wonderful has been wholly-owned by Mr. Yu Ronghua, our executive Director, in the form of one nil-paid share which was subsequently paid-up on 30 December 2014. Please refer to the paragraph below headed “Reorganisation – 6. Issue of Shares by our Company to the Offshore Employee Holding Entities” of this section for details of the paying up of the capital.

Incorporation of BVI-DY

BVI-DY was incorporated in the BVI as a limited liability company on 1 August 2014. It is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. At the date of incorporation, 11,002 shares were allotted and issued nil-paid to 44 PRC individuals who were employees of our Group but were Independent Third Parties. On 31 October 2014, one of these 44 PRC individual shareholders of BVI-DY transferred all his 110 shares in BVI-DY to one of the remaining 43 PRC individual shareholders of BVI-DY, for nil consideration. As a result, BVI-DY became wholly-owned by 43 PRC employees of our Group who are Independent Third Parties. These 43 PRC individuals were the same group of people holding Langfang Deying immediately prior to the Reorganisation. The 11,002 nil-paid shares of BVI-DY were subsequently paid up on 30 December 2014. Please refer to the paragraph below headed “Reorganisation – 6. Issue of Shares by our Company to the Offshore Employee Holding Entities” of this section for details of the paying up of the capital.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Incorporation of BVI-Decai

BVI-Decai was incorporated in the BVI as a limited liability company on 1 August 2014. It is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. At the date of incorporation, 11,001 shares were allotted and issued nil-paid to 36 PRC individuals who were employees of our Group but were Independent Third Parties. On 31 October 2014, two of these 36 PRC individual shareholders of BVI-DY transferred an aggregate of 330 shares representing all of their interests held in BVI-Decai to one of the remaining 34 PRC individual shareholders of BVI-Decai, for nil consideration. As a result, BVI-Decai became wholly-owned by 34 PRC employees of our Group who are Independent Third Parties. These 34 PRC individuals were the same group of people holding Langfang Decai immediately prior to the Reorganisation. The 11,001 nil-paid shares of BVI-Decai were subsequently paid up on 30 December 2014. Please refer to the paragraph below headed “Reorganisation – 6. Issue of Shares by our Company to the Offshore Employee Holding Entities” of this section for details of the paying up of the capital.

Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 September 2014. It has an authorised share capital of HK\$10,000 divided into 1,000,000 Shares with a par value of HK\$0.01 each. On the date of incorporation, our Company allotted and issued one subscriber Share for cash at par to the initial subscriber, an Independent Third Party. On the same day, such subscriber Share was transferred to BVI-Prima DG.

On 11 September 2014, our Company further allotted and issued at par 7,199 Shares to BVI-Prima DG, 300 Shares to BVI-Zacks Vroom, 200 Shares to BVI-Fair Silver and 200 Shares to BVI-Denmike, respectively, all credited as fully-paid up. As a result, our Company was held as to approximately 91.14%, 3.80%, 2.53% and 2.53% by BVI-Prima DG, BVI-Zacks Vroom, BVI-Fair Silver and BVI-Denmike, respectively.

2. Deregistration of Shenzhen D&G and acquisition of equity interests in Langfang D&G by DGHK

Deregistration of Shenzhen D&G

In order to take advantage of the economies of scale in manufacturing and to streamline our corporate structure for more efficient and centralised management, the business of Shenzhen D&G was gradually transferred to Langfang D&G. Since January 2013, Shenzhen D&G had ceased to carry on any business and its business licence expired on 31 July 2014. We applied for the deregistration of Shenzhen D&G and Shenzhen D&G was deregistered on 30 September 2014. Our PRC Legal Adviser confirmed that Shenzhen D&G had been duly deregistered in accordance with all the relevant PRC laws and regulations. As a result of the deregistration, Shenzhen D&G ceased to be a subsidiary of Langfang D&G.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Acquisition of equity interests in Langfang D&G by DGHK

On 30 September 2014, DGHK acquired all of the equity interests in Langfang D&G held by:

- (i) the PRC PE Investors (except Anxin LP), representing an aggregate of 14% of the equity interests in Langfang D&G, for a total consideration of RMB101,470,159.41 which was determined after negotiations between the parties with reference to certain rate of return on investment for the PRC PE Investors (except Anxin LP); and
- (ii) Anxin LP, representing 2% of the equity interests in Langfang D&G, for a consideration of RMB14,422,142 which was determined based on the investment costs of Anxin LP.

The acquisitions were properly and legally completed and the considerations were fully settled on 25 November 2014. Please refer to the paragraph below headed “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” in this section for details about the settlement of the said consideration.

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

Advancement of the Regal Sky Loan

On 1 November 2014, Regal Sky advanced the Regal Sky Loan to BVI-Prima DG repayable on the earlier of 31 October 2015 and one week after Listing. As consideration for this loan, BVI-Prima DG agreed: (i) to transfer and/or direct our Company to allot and issue to Regal Sky immediately before Listing such number of Shares as shall represent [REDACTED] of the issued share capital of our Company on a fully diluted basis immediately after Listing; and (ii) if the [REDACTED] is exercised, to transfer to Regal Sky as soon as BVI-Prima DG is able to do so under the Listing Rules, Shares representing [REDACTED] of the Shares allotted and issued by our Company under the [REDACTED].

Issue of Exchangeable Bond

On 3 November 2014, BVI-Prima DG issued the Exchangeable Bond to Regal Sky. Please refer to the paragraph below headed “[REDACTED] Investments” in this section for details of the Exchangeable Bond.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Provision of loans by BVI-Prima DG to our Company

Between 10 October 2014 and 25 November 2014, BVI-Prima DG advanced, in eight tranches, the Prima DG Shareholder’s Loan to our Company. The Prima DG Shareholder’s Loan was in turn injected by our Company to Rich Benefit, and by Rich Benefit to DGHK, in all instances as interest-free and on-demand shareholder’s loans. DGHK applied the full amount of such shareholder’s loans it received from Rich Benefit to settle the consideration for acquisition of the equity interests in Langfang D&G which were held by the PRC PE Investors referred to in the paragraph above headed “Reorganisation – 2. Deregistration of Shenzhen D&G and acquisition of equity interests in Langfang D&G by DGHK – Acquisition of equity interests in Langfang D&G by DGHK”. Such consideration was fully settled on 25 November 2014.

On 20 November 2014, BVI-Prima DG advanced the HK\$1.4M Loan to our Company for the purpose of financing the incorporation and maintenance fees payable by the Company, Rich Benefit and DGHK.

On or before 31 January 2015, BVI-Prima DG will further advance the Diamond Strong Loan to our Company which will in turn be injected by our Company to Rich Benefit, and by Rich Benefit to BW Enterprise, in all instances as interest-free and on-demand shareholder’s loans. BW Enterprise will apply the full amount of such shareholder’s loan from Rich Benefit to settle the consideration for the acquisition of the equity interests in Langfang D&G held by Diamond Strong. For details of such acquisition, please refer to the paragraph below headed “Reorganisation – 5. Acquisition of equity interests in Langfang D&G by BW Enterprise and reorganisation of the PRC operating companies – Acquisition of equity interests in Langfang D&G by BW Enterprise”.

For details of the repayment of the Prima DG Shareholder’s Loan and the HK\$1.4M Loan and the Diamond Strong Loan, please refer to the paragraph below headed “Reorganisation – 8. [REDACTED], Capitalisation Issue and issue of Shares to Regal Sky and BVI-Prima DG”.

4. Issue of new shares to Rich Benefit and buy-back of shares by the Hong Kong Companies

On 1 December 2014, BW Enterprise allotted and issued to Rich Benefit one fully-paid ordinary share at a consideration of HK\$10.00 (“**BW Enterprise Proceeds**”) for the purpose of buying-back the issued shares from its existing shareholders. On 2 December 2014, BW Enterprise properly and legally bought-back an aggregate of 30,000,000 fully-paid ordinary shares from the Choi Family Founders at a consideration of HK\$4.00 which was paid out of the BW Enterprise Proceeds.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 1 December 2014, Zacks Vroom allotted and issued to Rich Benefit one fully-paid ordinary share at a consideration of HK\$10.00 (“**Zacks Vroom Proceeds**”) for the purpose of buying-back the issued shares from its existing shareholder. On 2 December 2014, Zacks Vroom properly and legally bought-back an aggregate of 3,730,000 fully-paid ordinary shares from the Mr. Liu Tom Jing-zhi at a consideration of HK\$1.00 which was paid out of the Zacks Vroom Proceeds.

On 2 December 2014, Well Silver allotted and issued to Rich Benefit one fully-paid ordinary share at a consideration of HK\$10.00 (“**Well Silver Proceeds**”) for the purpose of buying-back the issued shares from its existing shareholders. On 4 December 2014, Well Silver properly and legally bought-back an aggregate of 12,100,000 fully-paid ordinary shares from the Mr. Chan Hak at a consideration of HK\$1.00 which was paid out of the Well Silver Proceeds.

On 1 December 2014, Denmike allotted and issued to Rich Benefit one fully-paid ordinary share at a consideration of HK\$10.00 (“**Denmike Proceeds**”) for the purpose of buying-back the issued shares from its existing shareholders. On 2 December 2014, Denmike properly and legally bought-back an aggregate of 2,480,000 fully-paid ordinary shares from the Mr. Lao Kam Chi at a consideration of HK\$1.00 which was paid out of the Denmike Proceeds.

5. Acquisition of equity interests in Langfang D&G by BW Enterprise and reorganisation of the PRC operating companies

Conversion of Langfang D&G to a limited liability company and refinement of business scope

Since we decided not to further proceed with the A Share Listing Application, Langfang D&G was converted from a joint-stock company to a limited liability company on 24 November 2014. On 16 December 2014, Langfang D&G also added leasing business to its business scope to better meet its development needs.

Sale of equity interests in Beijing D&G and acquisition of assets by Langfang D&G

As the real properties owned by Beijing D&G were not required by our Group and were subject to a demolition and relocation proposal of the Li Yuan County Government and the negotiation with the Li Yuan County Government was expected to require time and effort on the part of Beijing D&G to complete, we decided to exclude Beijing D&G from our Group. On 4 December 2014 Langfang D&G transferred the entire equity interests in Beijing D&G to Beijing Weilifei, at a consideration of RMB31,716,700 which was determined with reference to a valuation of Beijing D&G as at 30 September 2014 conducted by a PRC valuation company. The equity transfer was properly and legally completed and RMB16 million of the consideration has been paid as at the Latest Practicable Date, Beijing Weilifei will settle the remaining consideration before 31 March 2015. As a result of the transfer, Beijing D&G ceased to be held by Langfang D&G. Beijing Weilifei is principally engaged in the manufacture and sale of biomaterial processing machineries and related after-sales services and research and development. Beijing D&G will not be carrying on any business similar to that of our Group after the transfer.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 15 December 2014, Langfang D&G acquired from Beijing D&G certain assets and liabilities of Beijing D&G including the machineries and inventories in relation to the electronic control room facility business of Beijing D&G at their net book value of RMB15,247,063.16. The transfer was properly and legally completed and the consideration was settled on 15 December 2014. After the acquisition, remaining in Beijing D&G were (i) the real properties comprising our previous manufacturing plant in Beijing which was no longer used by our Group; and (ii) the seven registered utility model patents and the 12 computer software copyrights registered in the name of Beijing D&G which Beijing D&G will be transferring to Langfang D&G pursuant to two intellectual property transfer agreements dated 2 January 2015. For details of the transfer of the intellectual property rights, please refer to the paragraph headed “Appendix IV – Statutory and General Information – Intellectual property rights of our Group” in this document.

Establishment of Beijing Branch Office of Langfang D&G

Since we still have business and employees based in Beijing after the disposal of Beijing D&G, we established a branch office of Langfang D&G in Beijing on 12 December 2014. Beijing Branch Office of Langfang D&G is principally engaged in the same business as Beijing D&G before it was being transferred to Beijing Weilifei, namely: (i) the research and development of electronic control room facilities; and (ii) the provision of after-sales services for our electronic control room facilities.

Acquisition of equity interests in Langfang D&G by BW Enterprise

On 16 December 2014, BW Enterprise acquired 29.06% of the equity interests in Langfang D&G from Diamond Strong at a consideration of RMB45,333,600, which was calculated based on the registered capital of Langfang D&G. The acquisition was properly and legally completed and the consideration was required to be settled by 31 January 2015.

On 16 December 2014, BW Enterprise acquired 3%, 1% and 1% of the equity interests in Langfang D&G from the PRC Employee Holding Entities, respectively, at a consideration of RMB4,680,000, RMB1,560,000 and RMB1,560,000, respectively, which was calculated based on the registered capital of Langfang D&G. The acquisition was properly and legally completed and the consideration was required to be settled by 31 January 2015.

As a result of the aforementioned acquisitions, BW Enterprise held an aggregate of 77% of the equity interests in Langfang D&G.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

6. Issue of Shares by our Company to the Offshore Employee Holding Entities

On 30 December 2014, BVI-Prima DG advanced interest-free and on-demand loans in the amount of HK\$2,000,000, HK\$2,000,000 and HK\$6,000,000 (being the HK\$ equivalents of RMB1,560,000, RMB1,560,000 and RMB4,680,000, respectively, at the exchange rate agreed between BVI-Prima DG and the borrowers named below) (“**Employees’ Loans**”) to (i) the 43 shareholders of BVI-DY; (ii) the 34 shareholders of BVI-Decai; and (iii) Mr. Yu Ronghua, the sole shareholder of BVI-Wonderful (together, the “**Borrowers**”), respectively, for paying up the 11,002, 11,001 and one nil-paid shares issued to them by BVI-DY, BVI-Decai and BVI-Wonderful, respectively. Pursuant to the terms of the Employees’ Loans, the Borrowers shall pay down the Employees’ Loans in the following circumstances until full repayment of such loans: (i) whenever the Borrowers have in their lawful possession any offshore currencies or whenever they are able to lawfully remit their RMB out of the PRC; (ii) upon receipt of any distributions or dividends received from the Offshore Employee Holding Entities; (iii) within two months of any demand for repayment from BVI-Prima DG; (iv) upon selling or transferring to another party the shares held by the Borrowers in the Offshore Employee Holding Entities; and (v) upon such other events or by such other means as shall be agreed among BVI-Prima DG and the Borrowers.

On 30 December 2014:

- (i) the 43 shareholders of BVI-Deying paid up their 11,002 nil-paid shares in BVI-DY in the amount of HK\$2,000,000 (being the HK\$ equivalent of RMB1,560,000), which nil-paid shares were then credited as fully paid-up;
- (ii) the 34 shareholders of BVI-Decai paid up their 11,001 nil-paid shares in BVI-Decai in the amount of HK\$2,000,000 (being the HK\$ equivalent of RMB1,560,000), which nil-paid shares were then credited as fully paid-up; and
- (iii) Mr. Yu Ronghua, the sole shareholder of BVI-Wonderful paid up his one nil-paid share in BVI-Wonderful in the amount of HK\$6,000,000 (being the HK\$ equivalent of RMB4,680,000), which share was then credited as fully paid-up.

On 31 December 2014, our Company allotted and issued:

- (i) an aggregate of 100 fully-paid Shares to BVI-DY at a consideration of HK\$2,000,000 (being the HK\$ equivalent of RMB1,560,000, which represented the amount payable by BW Enterprise to acquire Langfang Deying’s 1% equity interest in Langfang D&G);
- (ii) an aggregate of 100 fully-paid Shares to BVI-Decai at a consideration of HK\$2,000,000 (being the HK\$ equivalent of RMB1,560,000, which represented the amount payable by BW Enterprise to acquire Langfang Decai’s 1% equity interests in Langfang D&G); and

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (iii) an aggregate of 300 fully-paid Shares to BVI-Wonderful at a consideration of HK\$6,000,000 (being the HK\$ equivalent of RMB4,680,000, which represented the amount payable by BW Enterprise to acquire Wendefeng LP’s 3% equity interests in Langfang D&G).

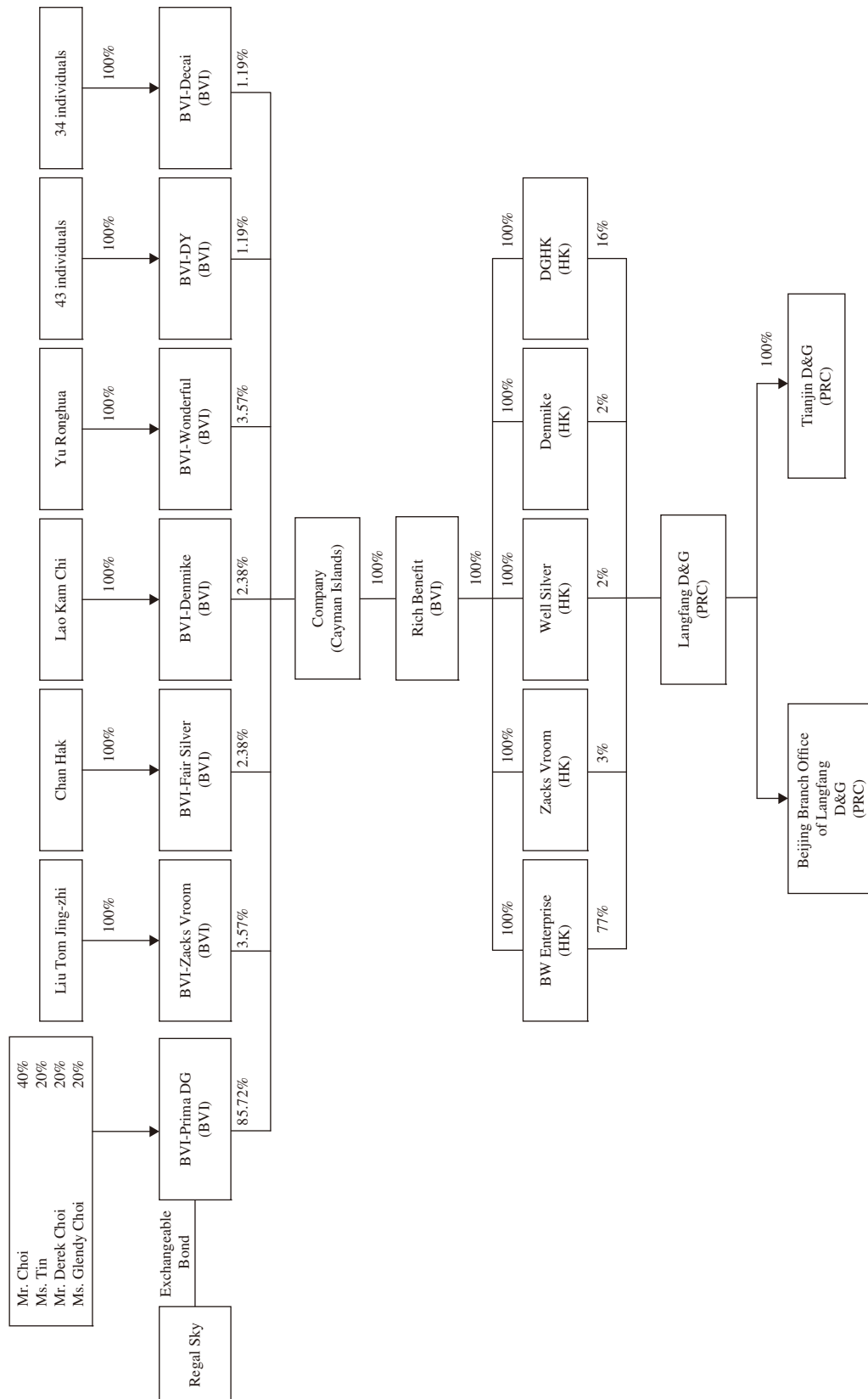
Our Company injected the total amount received from the aforementioned share allotments to BW Enterprise through Rich Benefit by means of interest-free and on-demand shareholders’ loans. Such amount was used by BW Enterprise for acquiring equity interests in Langfang D&G held by the PRC Employee Holding Entities referred to in the paragraph above headed “Reorganisation – 5. Acquisition of equity interests in Langfang D&G by BW Enterprise and reorganisation of the PRC operating companies – Acquisition of equity interests in Langfang D&G by BW Enterprise” in this section.

As a result of the aforementioned steps of our Reorganisation, our Company became the holding company of our Group, holding through our immediate holding company, Rich Benefit, which holds the Hong Kong Companies and DGHK. The Hong Kong Companies were used as holding companies to minimise the change in shareholding of Langfang D&G during the Reorganisation. The Hong Kong Companies and DGHK in turn hold our operating subsidiary, Langfang D&G, which holds the Beijing Branch Office of Langfang D&G and Tianjin D&G. Each of our Company, Rich Benefit, the Hong Kong Companies and DGHK is an investment holding company. Langfang D&G (including the Beijing Branch Office of Langfang D&G) and Tianjin D&G are our operating subsidiaries principally engaged in the (i) manufacturing and sale of asphalt mixing plants; (ii) provision of equipment modification services and sale of machinery components and parts for our asphalt mixing plants; and (iii) leasing of our asphalt mixing plants by way of operating lease.

Our PRC Legal Adviser has advised that each of the steps in our Reorganisation concerning Shenzhen D&G, Beijing D&G and our PRC subsidiaries has been duly completed in accordance with the applicable PRC laws and regulations and all necessary governmental approvals as required under the PRC laws and regulations have been obtained.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets forth our corporate and shareholding structure immediately following the aforementioned steps of our Reorganisation:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

7. Increase in our Company’s authorised share capital

On [●] 2015, our Company increased its authorised share capital from HK\$10,000 to HK\$[20,000,000] by the creation of an additional [1,999,000,000] Shares.

8. [REDACTED], Capitalisation Issue and issue of Shares to Regal Sky and BVI-Prima DG

On the Listing Date, our Company will:

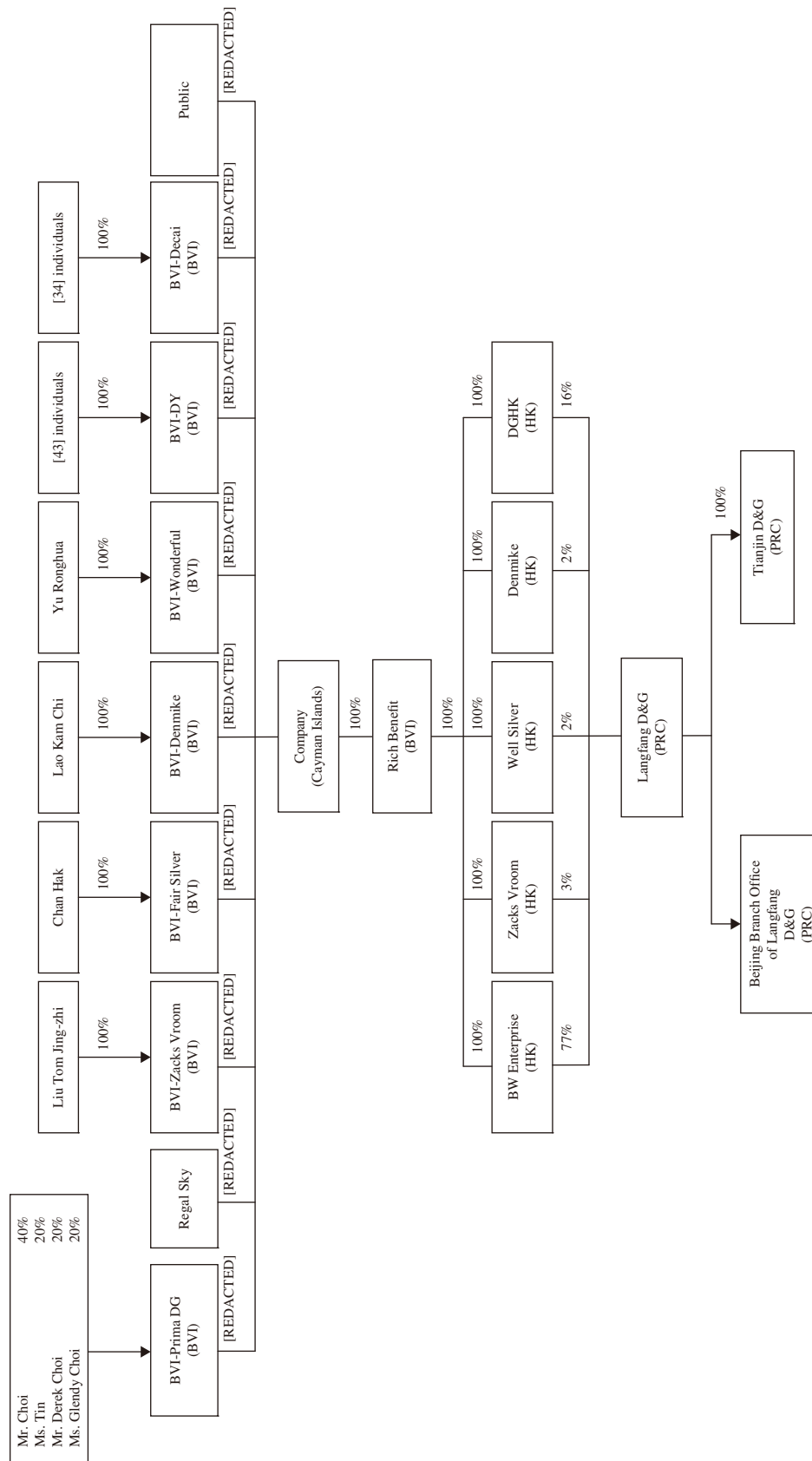
- (i) offer [REDACTED], representing [REDACTED] of the enlarged issue share capital of our Company after all of the allotment and issue of Shares stated in (ii) and (iii) below (taking no account of any Shares to be issued pursuant to the exercise of the [REDACTED] or options that may be granted under the share option scheme to be adopted by our Company), for the [REDACTED];
- (ii) conditional upon the share premium account of our Company being in credit as a result of the issuance of [REDACTED] under the [REDACTED], capitalise an appropriate amount standing to the credit of the share premium account of our Company by applying that amount in paying up in full at par a total of [377,991,600] Shares for allotment and issue on a pro-rata basis to all of our Shareholders as at the date of this document; and
- (iii) allot and issue [REDACTED] Shares to Regal Sky and [REDACTED] Shares to BVI-Prima DG, all credited as fully paid, in full repayment of the Prima DG Shareholder’s Loan, the HK\$1.4M Loan and the Diamond Strong Loan. Such Shares issued to Regal Sky and BVI-Prima DG will respectively represent [REDACTED] and [REDACTED] of the entire issued share capital of our Company immediately following completion of the [REDACTED], the Capitalisation Issue and the Capitalisation of the Loans, assuming that the [REDACTED] is not exercised and taking no account of any Shares that may be issued pursuant to any options that may be granted under the Share Option Scheme.

Assuming the [REDACTED] is not exercised, the allotment of the [REDACTED] Shares to Regal Sky in (iii) above would represent full satisfaction of the obligations of BVI-Prima DG to Regal Sky under the Exchangeable Bond(s) and the Regal Sky Loan.

If the [REDACTED] is exercised, BVI-Prima DG will, as soon as practicable after Listing, additionally transfer Shares representing [REDACTED] of the Shares allotted and issued by our Company under the [REDACTED] to Regal Sky in full satisfaction of the obligations of BVI-Prima DG to Regal Sky under the Regal Sky Loan. Upon completion of such share transfer, assuming that the [REDACTED] is exercised in full and taking no account of any Shares that may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme. BVI-Prima DG and Regal Sky will hold approximately [REDACTED] and [REDACTED] of the entire issued share capital of our Company, respectively.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets forth our corporate and shareholding structure immediately following completion of the [REDACTED], the Capitalisation Issue and the Capitalisation of the Loans, taking no account of any Shares that may be issued pursuant to the exercise of the [REDACTED] or any options that may be granted under the Share Option Scheme:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

[REDACTED] INVESTMENTS

Overview

On 27 October 2014, BVI-Prima DG (as issuer) and the Choi Family Founders (as guarantors) entered into an exchangeable bond subscription agreement with Regal Sky (as subscriber) pursuant to which BVI-Prima DG agreed to issue and Regal Sky agreed to subscribe for an exchangeable bond in the principal amount of US\$8,000,000. BVI-Prima DG issued the Exchangeable Bond to Regal Sky on 3 November 2014. The proceeds from the issuance of the Exchangeable Bond was used to fund the Prima DG Shareholder’s Loan which was advanced to our Company for the purpose of settling the consideration for the acquisition of equity interests in Langfang D&G from the PRC PE Investors as part of the Reorganisation. Please refer to the paragraph above headed “Reorganisation – 2. Deregistration of Shenzhen D&G and acquisition of equity interests in Langfang D&G by DGHK – Acquisition of equity interests in Langfang D&G by DGHK”.

Pursuant to the terms of the Exchangeable Bond, the Exchangeable Bond will automatically be exchanged into Shares immediately before Listing. For details about the shareholding interests of Regal Sky in our Company upon full exchange of the Exchangeable Bond and Listing, please refer to the paragraph above headed “Reorganisation – 8. [REDACTED], Capitalisation Issue and issue of Shares to Regal Sky and BVI-Prima DG” in this section.

On 31 December 2014, the parties to the exchangeable bond subscription agreement entered into a supplemental agreement to revise the dates by which certain undertakings were to be fulfilled by BVI-Prima DG and the Choi Family Founders.

Key information regarding the Exchangeable Bond

Date of subscription agreement	27 October 2014
Date of supplemental agreement	31 December 2014
Subscriber of the Exchangeable Bond	Regal Sky
Principal amount of the Exchangeable Bond:	US\$8,000,000
Date of payment of the subscription price:	3 November 2014
Number and approximate percentage of shareholding upon Listing (assuming the [REDACTED] is not exercised)	[REDACTED]
Approximate cost of investment	[REDACTED]
Approximate percentage of discount to the mid-point [REDACTED]	[REDACTED]

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Background of Regal Sky

Regal Sky is a limited liability company incorporated in the BVI on 20 May 2014 and is an investment holding company. It is wholly owned by Ocean Equity Partners Fund L.P., an exempted limited partnership registered in the Cayman Islands which is principally engaged in the business of investing in private enterprises in the PRC. To the knowledge of our Directors, the limited partners of Ocean Equity Partners Fund L.P are Independent Third Parties.

Principal terms of the Exchangeable Bond

Set out below are the principal terms of the Exchangeable Bond Subscription Agreement and the Exchangeable Bond which were arrived at among the parties based on arm’s length negotiations with reference to factors including our historical financial performance and future prospects:

Date of issue of the Exchangeable Bond:	3 November 2014
Principal amount of the Exchangeable Bond:	US\$8,000,000
Interest:	2% per annum on the principal amount of the Exchangeable Bond outstanding and accruing from and including the date of issue on a daily basis and calculated on the basis of a 360-day year
Interest payment date:	Interest is payable annually in arrears on the last day of each 12-month period, except that the last interest payment date will be the Maturity Date or the Extended Maturity Date or the date of the Qualified [REDACTED] (as defined below)
Maturity date:	On the completion of 18 months from the date of issue (the “ Maturity Date ”). Upon mutual agreement in writing between BVI-Prima DG and Regal Sky, the maturity date may be extended for another 12 months (the “ Extended Maturity Date ”)
Right to exchange:	Regal Sky has the right to exchange the Exchangeable Bond for Shares at any time up to the Maturity Date or the Extended Maturity Date. Regal Sky has no present intention to exercise the right to exchange the Exchangeable Bond for Shares before the Listing is granted.
Automatic exchange:	In the event our Company completes a Qualified [REDACTED] (as defined below) on or before the Maturity Date or, if applicable, the Extended Maturity Date, the whole of the principal amount of the Exchangeable Bond shall automatically be exchanged into Shares immediately before the completion of the Qualified [REDACTED]

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Number of Shares to be exchanged: The number of Shares to be transferred and/or allotted to Regal Sky upon exchange will be determined in the following manner:

$$ES = N \times C\%$$

where:

“ES” = the number of Shares to be transferred and/or allotted and issued by our Company;

“N” = (a) in the case of automatic exchange, the total number of the issued Shares immediately before the completion of the Qualified [REDACTED] (i.e. excluding the [REDACTED] to be issued to the public under the Qualified [REDACTED]); or

(b) in the case other than automatic exchange, the total number of issued Shares on the date of exchange; and

“C” = the percentage of Shares to be transferred and/or allotted and issued by our Company (on post-money basis) which is calculated using the following formula:

$$C = \frac{A}{P} \times 100\%$$

where:

“A” = the aggregate principal amount of the Exchangeable Bond to be exchanged. The amount denominated in US\$ will be converted into RMB for the purpose of calculating the number of Shares to be transferred/allotted and issued upon exchange based on the middle exchange rate of US\$ to RMB announced by the People’s Bank of China on the date of exchange; and

“P” = the amount of net profit after tax but before minority interest of our Company for the year ended 2014 on group consolidation basis audited under IFRS multiplied by 5.8.

No fractional Shares shall be transferred upon exchange of the Exchangeable Bond.

Events of default:

(a) BVI-Prima DG defaults in the payment of any principal or other amount due and payable under the Exchangeable Bond;

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (b) BVI-Prima DG or any member of our Group (i) changes its business; (ii) ceases or is disqualified to carry on its business or any substantial part of it; or (iii) disposes of all or any substantial part of our business or assets; other than as part of a restructuring within the Group;
- (c) any permits, licences or other approval necessary for the business operations of BVI-Prima DG of any member of our Group (except as part of a restructuring within the Group) is revoked, withdrawn or not renewed, and such revocation, withdrawal or non-renewal is incapable of remedy or is not remedied within 60 days of the notice of default given by Regal Sky;
- (d) any party to the Exchangeable Bond Subscription Agreement and the documents contemplated therein (collectively the “**Bond Documents**”) (other than Regal Sky, its affiliates or nominees) defaults in the due observance or performance of any material term, covenant, undertaking or agreement contained in such documents, and such default remains unremedied for a period of 10 business days after notice of default is given by Regal Sky;
- (e) any of the warranties, statements or representations under the Exchangeable Bond Subscription Agreement is false or misleading or ceases to be true and accurate in any material respect;
- (f) an insolvency or bankruptcy event occurs in respect of BVI-Prima DG or any member of our Group, our Company or any of our Subsidiaries;
- (g) an order is made or a resolution is passed for the winding-up of BVI-Prima DG, our Company or any of our Subsidiaries, except for the internal reorganisation or voluntary winding up of our Subsidiaries;

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (h) a moratorium is agreed or declared in respect of any indebtedness of BVI-Prima DG or any member of our Group, or all or a substantial part of the assets of BVI-Prima DG or of any member of our Group is compulsorily acquired or expropriated by any governmental authority and which is expected to have a material adverse effect on the business or prospects of our Group as a whole or of our ability to perform our obligations under the Bond Documents (“**Material Adverse Effect**”);
- (i) any default by BVI-Prima DG or any member of our Group in the payment of any principal, interest or other amount of indebtedness which is due to be paid, or breach of any material term of any instrument of indebtedness of BVI-Prima DG or any member of our Group which results in the indebtedness becoming due or payable prior to its stated maturity and causes a Material Adverse Effect;
- (j) except as part of the Reorganisation or with the prior written consent of Regal Sky, any of BVI-Prima DG or a member of our Group being involved in any of the following transactions (i) the sale, transfer or disposal of all or substantially all of its assets; (ii) merger or consolidation of with or into an other entity; or (iii) a transfer or a series of transfers which would result in a change in the person(s) holding 50% or more of the voting shares of Prima DG or any member of our Group; and
- (k) BVI-Prima DG fails to fulfil any of the post-completion undertakings set out in the Exchangeable Bond Subscription Agreement (which include, among other things, undertakings to deliver security documents and complete certain steps of the Reorganisation) on or prior to the dates specified in the Exchangeable Bond Subscription Agreement.

Upon the occurrence of an event of default, Regal Sky may by written notice to BVI-Prima DG, redeem the entire outstanding principal amount of the Exchangeable Bond, in which event the redemption amount (together with all interest accrued thereon until payment is made in full) shall be due and repayable on the seventh business day after the date of Regal Sky’s notice.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The redemption amount shall be calculated in the following manner:

$$\text{Redemption amount} = P \times (1 + 23\%)^n$$

Where:

“P” = the principal amount of the Exchangeable Bond outstanding as at the date of notice given by Regal Sky; and

“n” = the number of year(s) from the date of issue to the date of redemption

Redemption not resulting from an event of default:

In the event that a Qualified [REDACTED] is not completed by December 2015, or there is no sale of substantially all of the outstanding Shares and/or assets of our Company in a single transaction before the Maturity Date or the Extended Maturity Date, BVI-Prima DG shall redeem the principal amount of the Exchangeable Bond which remain outstanding on the Maturity Date or the Extended Maturity Date at the redemption amount below together with all interest accrued thereon until payment is made in full.

The redemption amount shall be calculated in the following manner:

$$\text{Redemption amount} = P \times (1 + 13\%)^n$$

Where:

“P” = the principal amount of the Exchangeable Bond outstanding as at the Maturity Date or the Extended Maturity Date; and

“n” = the number of year(s) from the date of issue to the date of redemption

Save for the above, BVI-Prima DG may not redeem the Exchangeable Bond before the Maturity Date or the Extended Maturity Date unless with the prior written consent of Regal Sky.

The Exchangeable Bond will be cancelled upon redemption.

A “Qualified [REDACTED]” means an [REDACTED] of our Shares on the Main Board of the Stock Exchange at a [REDACTED] valuation of our Company of at least [REDACTED] and proceeds therefrom of at least [REDACTED].

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Use of proceeds

BVI-Prima DG shall use the proceeds from the Exchangeable Bond to on-lend to our Company to fund the acquisition of equity interests in Langfang D&G from the PRC PE Investors under the Reorganisation as well as reimburse BVI-Prima DG for funds already advanced to our Company to fund such acquisition of equity interests in Langfang D&G.

All of the proceeds from the Exchangeable Bond had been used by BVI-Prima DG and our Company in the manner set out above.

Guaranteed internal rate of return

BVI-Prima DG covenants and guarantees to Regal Sky that upon Regal Sky and/or its affiliate becoming a shareholder of our Company at the completion of the Qualified [REDACTED], Regal Sky and/or its affiliate shall have an internal rate of return of 25% (the “Guaranteed IRR”). If the [REDACTED] of the Shares is insufficient to provide the Guaranteed IRR upon Listing, BVI-Prima DG shall pay the shortfall to Regal Sky in cash to ensure the Guaranteed IRR.

[Based on the current indicative [REDACTED] of [REDACTED] to [REDACTED], it is expected that the [REDACTED] of the Shares would be sufficient to provide the Guaranteed IRR upon Listing.]

Security

In connection with the issue of the Exchangeable Bond and the advancement of the Regal Sky Loan, the following share charges and guarantees were provided in favour of Regal Sky:

- (a) a charge over the entire issued share capital of BVI-Prima DG dated 3 November 2014 and executed and delivered by the Choi Family Founders in favour of Regal Sky;
- (b) a charge over all the Shares held by BVI-Prima DG dated 3 November 2014 and executed and delivered by BVI-Prima DG in favour of Regal Sky;
- (c) a charge over the entire issued share capital of Rich Benefit dated 3 November 2014 and executed and delivered by the our Company in favour of Regal Sky; and
- (d) a guarantee dated 3 November 2014 and given by the Choi Family Founders in favour of Regal Sky for the due and punctual performance and observance of the obligations of the Exchangeable Bond Subscription Agreement and the documents contemplated therein by BVI-Prima DG.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

In addition, the following charges, guarantees and mortgages will also be provided in favour of Regal Sky:

- (a) a charge over the entire issued share capital of BW Enterprise to be executed and delivered by Rich Benefit in favour of Regal Sky;
- (b) if and when requested by Regal Sky, a guarantee to be given by Langfang D&G in favour of Regal Sky;
- (c) a first mortgage to be created by Diamond Strong in favour of Regal Sky in relation to Room B2, 10/F., Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong;
- (d) a second mortgage to be created by Diamond Strong in favour of Regal Sky in relation to Rooms 701 and 702, Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong; and
- (e) Subject to consent being given by the lending bank under the first mortgage, a second mortgage to be created by Balama Engineering in favour of Regal Sky in relation to 17/F., Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong.

All of the charges, guarantees and mortgages set out in this paragraph headed “Security” will be discharged and released upon Listing.

Special rights

Under the Bond Documents, Regal Sky was also granted a number of special rights, a summary of which is set out below. All these special rights, other than the right described under the paragraph headed “Guaranteed Sales for 2014 and 2015”, will automatically terminate and lapse upon Listing.

Information and inspection rights

We shall deliver to Regal Sky the following documents:

- (a) final draft audited financial statements of our Company on a consolidated basis and of each of our Subsidiaries on an unconsolidated basis, all prepared on Hong Kong generally accepted accounting principles or such other international generally accepted accounting principles (“**Accounting Standards**”) within 120 days after the end of each financial year;
- (b) quarterly financial statements of our Company on a consolidated basis and of each of our Subsidiaries on an unconsolidated basis, prepared based on the Accounting Standards within 45 days after the end of each fiscal quarter;
- (c) unaudited monthly management accounts of our Company and our Subsidiaries and their respective operational report within 30 days after the end of each calendar month;
- (d) proposed annual business plan for the following financial years for our Company on a consolidated basis and for each of our Subsidiaries on an unconsolidated basis not later than 31 December of each financial year;

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (e) minutes or resolutions passed by the board or shareholders of any member of our Group within 10 business days from the date of such meeting; and
- (f) manuals, documents and policies of our Group in relation to corporate governance or internal control.

Inspection rights

Regal Sky shall have the right, by giving us not less than five business days’ prior notice, to inspect during reasonable business hours the properties and facilities of members of our Group, and have access to and examine our books and accounts.

Profit guarantee

Our Controlling Shareholders guarantee that our Company shall achieve the net profit after tax (“NPAT”) for each of 2014, 2015, 2016 and 2017 as set out below. In the event that the NPAT in any relevant year falls short of the guaranteed amount below, our Controlling Shareholders shall, at the election of Regal Sky, compensate Regal Sky for the shortfall in cash or transfer additional Shares to Regal Sky based on an agreed formula.

<u>Year</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Guaranteed NPAT	RMB80,000,000	Higher of : (i) 1.1 times NPAT in 2014; and (ii) RMB88,000,000	Higher of : (i) 1.2 times NPAT in 2015; and (ii) RMB105,600,000	Higher of : (i) 1.25 times NPAT in 2016; and (ii) RMB132,000,000

Guaranteed Sales for 2014 and 2015

Our Controlling Shareholders also guarantee that the total units of asphalt mixing plants which are sold or leased to our customers shall not be less than 55 units in 2014 and 58 units in 2015. In the event that the actual number of units sold or leased in any relevant year falls short of the guaranteed units, our Controlling Shareholders shall pay a cash compensate to Regal Sky calculated in the following manner:

$$\text{Cash compensation} = \text{MS} \times \text{AG} \times \text{ST}$$

where:

“MS” = guaranteed number of units – actual number of units sold or leased by the relevant year end;

“AG” = the average gross profit per unit of asphalt mixing plants sold for the relevant year; and

“ST” = the shareholding (%) of Regal Sky in our Company by relevant year end

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Restrictions on transfer and right of first offer

Our Controlling Shareholders shall not without the prior consent of Regal Sky transfer or otherwise dispose of or create any new mortgage, charge, pledge, lien or other encumbrance, third party rights or security interest in respect of all or any of the Shares held by them. In the event our Controlling Shareholders propose to transfer or dispose of any of their Shares, they shall give a written notice (the “**Notice**”) to our Company and Regal Sky providing information such as the number of Shares to be transferred and the consideration therefor and Regal Sky shall be given a right of first offer to purchase all (but not part of) the offered Shares.

Co-sale right and sale at Qualified [REDACTED]

If Regal Sky has not exercised its right of first offer described above and our Controlling Shareholders proceed to sell the Shares to a prospective transferee, and Regal Sky has by then exchanged any amount of the Exchangeable Bond for Shares, Regal Sky shall have the right to sell its Shares to the prospective transferee at the same price and upon the same terms and conditions as our Controlling Shareholders. The number of Shares to be sold by our Controlling Shareholders shall be reduced to accommodate the Shares which Regal Sky wishes to sell in the event the prospective transferee refuses to purchase the additional Shares of Regal Sky.

If our Controlling Shareholders transfer any Shares in contravention of the arrangements as stated above, Regal Sky shall have the right to sell to our Controlling Shareholders the number of Shares equal to the number of Shares which Regal Sky would have been entitled to transfer to the purchaser.

In the event our Controlling Shareholders propose to sell their Shares to the public under the Qualified [REDACTED], Regal Sky shall have the right to participate in such sale on a pro-rata basis with our Controlling Shareholders and sell a portion of the Shares which it will receive upon exercise of the exchange right immediately before the Qualified [REDACTED].

Board representation

Regal Sky shall be entitled to nominate one Director. The quorum for a Board meeting shall comprise two Directors one of whom shall be the Director nominated by Regal Sky. The Director nominated by Regal Sky shall resign upon Listing.

Negative covenants

Without the prior written approval of Regal Sky, no member of our Group shall carry out the following transactions:

- (a) change its principal business or conduct any business or operation which is not in its ordinary course of business;
- (b) any deviation from the annual budget more by than 30% or a material change of the annual business plan;

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (c) acquiring any asset (including shares in any other person), whether in one or a series of transactions, for which the total price paid is greater than RMB5,000,000 save and except acquisition of assets (i) under the Reorganisation or (ii) arising from or in the ordinary course of business;
- (d) authorising or undertaking any arrangement for the disposal of the assets or business of any member of the Group, whether in one or a series of transactions with a value exceeding RMB5,000,000, save and except acquisition of assets (i) under the Reorganisation or (ii) arising from or in the ordinary course of business;
- (e) incurring any single item of capital expenditure exceeding RMB5,000,000, unless such expenditure is (i) included in the annual budget; or (ii) in respect of the Reorganisation; or (iii) arising from or in the ordinary course of business;
- (f) incurring indebtedness or assuming any financial obligation or liability of an amount exceeding RMB5,000,000 otherwise than under the Reorganisation or in its ordinary course of business;
- (g) carrying out any amalgamation, merger, consolidation, reconstitution, restructuring or similar transaction that results in a change of control of any member of our Group;
- (h) providing loans to any person or incurring any liability (other than those: (i) incurred in the ordinary course of business; (ii) where the amount and nature of such a loan provision is included in the annual budget; or (iii) loans between members of our Group);
- (i) giving a guarantee, indemnity or other assurance for a debt of another person or about the financial condition of that person, unless the same arises in its ordinary course of business;
- (j) entering into any contract not in its ordinary course of business and with a value exceeding RMB5,000,000 except in respect of the transactions under the Reorganisation;
- (k) creating any encumbrance over any of its asset (including shares) or rights other than in its ordinary course of business;
- (l) entering into any arrangement with any Shareholder or its affiliate, which is not on an arm’s length basis and involves an amount exceeding RMB1,000,000;
- (m) removing any of the key personnel and approving the remuneration packages of key personnel with a change of 30% or more than their then existing packages save and except where such removal is compulsorily required by the applicable laws or regulations;
- (n) compromising litigation or a similar procedure involving a claim of more than RMB5,000,000;

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (o) licensing, selling or otherwise disposing of any of its intellectual property rights which gives rise to a value exceeding RMB5,000,000 other than pursuant to a license, sale or disposition of a type and amount included in the annual budget;
- (p) recommending or declaring an interim or a final dividend;
- (q) changing the auditors or the terms of their appointment or changing the financial year of any member of our Group;
- (r) disposing, creating or acquiring any interests in a subsidiary or entering into any joint venture other than in connection with the Reorganisation;
- (s) amending or repealing the constitutional documents of any member of our Group which will affect or be in relation to the rights and interests of Regal Sky or the shareholders of any member of our Group. For other amendments of the constitutional documents, to provide such amendments to Regal Sky in advance;
- (t) changing the designations, powers, rights, preferences or privileges, or the qualifications, limitations or restrictions of our Shares;
- (u) creating, authorising or issuing any shares or other equity security of BVI-Prima DG or any member of our Group having a structural or legal preference over, or ranking pari passu with, the shares in issue with respect to any matter, including, without limitation, dividend rights, voting rights or liquidation preference;
- (v) granting any type of options, warrants or any rights issue to subscribe to shares of BVI-Prima DG or any member of our Group;
- (w) authorising or undertaking any reduction of capital or share repurchase, other than (i) under the Reorganisation or (ii) any repurchase of Shares or other equity security issued to or held by employees, officers, directors of any member of the Group pursuant to the stock option plan upon termination of their employment at a price not greater than the fair market value; and
- (x) authorising or undertaking any liquidation, winding up or bankruptcy, reorganisation, composition with creditors or other analogous insolvency proceedings, whether voluntary or involuntary, or any petition presented or resolution passed for any such event or for the appointment of an insolvency practitioner.

Other matters

[The Shares to be exchanged under the Exchangeable Bond and held by Regal Sky, unless waived by the Sole Global Coordinator, are expected to be subject to a lock-up of not more than six months from the Listing Date]. These Shares will be counted towards the public float after the Listing for the purposes of Rule 8.08 of the Listing Rules. As of the Latest Practicable Date, no part of the Exchangeable Bond had been exchanged for Shares.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Since the subscription price for the Exchangeable Bond was fully settled by Regal Sky on 3 November 2014, the Sole Sponsor is of the view that the issue of the Exchangeable Bond is in compliance with the Interim Guidance on [REDACTED] investments (HKEx-GL29-12), the Guidance on [REDACTED] investments (HKEx-GL43-12) and the Guidance on [REDACTED] investments in convertible instruments (HKEx-GL44-12) issued by the Stock Exchange.

Immediately before Listing, BVI-Prima DG will direct our Company to allot and issue to Regal Sky such number of Shares as shall represent approximately [REDACTED] and [REDACTED] of the issued share capital of our Company on a fully diluted basis immediately after Listing, representing full fulfillment of BVI-Prima DG’s obligations under the Exchangeable Bond and part of the consideration for the Regal Sky Loan, respectively. Please refer to the paragraph above headed “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 – Advancement of the Regal Sky Loan” for details of the Regal Sky Loan. Immediately before Listing, our Company will also issue Shares to BVI-Prima DG as full repayment of the Prima DG Shareholder’s Loan, the HK\$1.4M Loan and the Diamond Strong Loan. 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 paragraph above headed “Reorganisation – 8. [REDACTED], Capitalisation Issue and the issue of Shares to Regal Sky and BVI-Prima DG” in this section.

PRC LEGAL COMPLIANCE

M&A Rules

According to the Rules on the Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (“M&A Rules”) which were promulgated by the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission, the CSRC, the State Administration of Taxation, the State Administration for Industry and Commerce and the SAFE and took effect on 8 September 2006 and modified on 22 June 2009, where a domestic natural person intends to take over his/her related domestic company in the name of an offshore company which he/she lawfully established or controls, the takeover shall be subject to the examination and approval of the Ministry of Commerce; and where a domestic natural person holds equity interest in a domestic company through an offshore special purpose company, any transaction involving the overseas listing of that special purpose company shall be subject to approval by the CSRC. Our PRC Legal Adviser has advised that the M&A Rules are not applicable to our Listing and it is not necessary for us to obtain approval from the CSRC and the Ministry of Commerce as the controlling beneficiary owners of our PRC subsidiaries have been individuals from Hong Kong since the establishment of our PRC subsidiaries.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Circular No. 37

The Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles* (《關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知》) (Huifa [2014] No. 37, hereinafter refer to as “**Circular 37**”) and Operating Guideline for Relevant Business of Foreign Exchange Administration over Round-trip Investment* (《返程投資外匯管理所涉業務操作指引》) (“**Operating Guideline**”), the annexure of Circular 37 were promulgated by SAFE on 14 July 2014 and took effect on the same day. According to Circular 37 and the Operating Guideline, a domestic resident shall, before contributing lawful domestic and overseas assets or interests to a special purpose vehicle, apply to the foreign exchange office of the place of registration or the foreign exchange office of where the domestic enterprise’s assets or interests is located, to effect foreign exchange registration.

Since our Shareholders, BVI-Prima DG, BVI-Zacks Vroom, BVI-Fair Silver and BVI-Denmike, are beneficially owned by the Choi Family Founders, Mr. Liu Tom Jing-zhi, Mr. Chan Hak and Mr. Lao Kam Chi, respectively, all of whom are non-Chinese residents, our PRC Legal Adviser is of the opinion that the aforementioned beneficial shareholders are not subject to Circular 37.

Since our other Shareholders, BVI-Wonderful, BVI-DY and BVI-Decai, are beneficially owned by Mr. Yu Ronghua (our executive Director), 43 individuals and 34 individuals, respectively, all of whom are Chinese residents, our PRC Legal Adviser is of the opinion that their setting up of BVI-Wonderful, BVI-DY and BVI-Decai to indirectly hold shares in our PRC subsidiaries constitute round-trip investments and are therefore required to apply for registration with Langfang sub-office of Hebei Branch of SAFE pursuant to Circular 37. On 26 December 2014, Mr. Yu Ronghua and the aforesaid 77 individuals completed the registration with Hebei Branch of SAFE.

BUSINESS

OVERVIEW

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

(a) Application in road construction or maintenance projects

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

(b) Level of technical capabilities

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

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

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

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

BUSINESS

Through our research and development efforts, we have obtained 13 patents and 12 software copyrights in relation to these four major components and systems in our asphalt mixing plants. We are also in the midst of applying for 2 patents for our drying system and Beijing D&G is in the midst of transferring 7 registered patents to us. Please refer to the paragraphs headed “Our Products and Services – Products” of this section for details of each of these major components and systems. Based on the CCID Report, we are one of the few manufacturers in the PRC who are capable of manufacturing 5000 model series asphalt mixing plants, currently the largest asphalt mixing plant by production capacity produced on a mass production scale in the PRC. Our asphalt mixing plants are able to produce asphalt mixtures that meet the requirements and standards for the construction of expressways, being the top-tier highways in the PRC. Our products play an important role in expressway and highway construction and municipal road maintenance projects in approximately 30 provinces, municipalities and autonomous regions in the PRC. We were one of the suppliers of asphalt mixing plants in a number of major construction projects in the PRC, including the Beijing-Tibet Highway* (京藏高速), Beijing-Hong Kong-Macau Highway* (京港澳高速), Jiaozhou Bay Bridge* (膠州灣大橋) and Hangzhou Bay Bridge* (杭州灣大橋). All of these attest to our technical capacities and strengthen our leading position in the industry. During the Track Record Period, our revenue generated from the sale of medium to large scale asphalt mixing plants, accounted for approximately 84.0%, 85.1% and 90.9% of our revenue from the sales of asphalt mixing plants, respectively.

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

BUSINESS

We are committed to developing and promoting our Recycling Plants as we expect this to be a major area of growth for the industry. According to the CCID Report, it is estimated that hot-mix recycling technology will be adopted in a majority of roads maintenance projects in the PRC in the next three to five years, which is also the technology adopted by us in our Recycling Plants. In light of the PRC government’s policies encouraging the use of pavement recycling maintenance technologies, we expect that the demand for Recycling Plants will increase. We have been the first to develop and launch a number of Recycling Plants in the PRC. According to the CCID Report, we were the first manufacturer to manufacture and launch Recycling Plants with 15% designed RAP added capacity and Double Drum Recycling Plants with 50% designed RAP added capacity in the PRC in 2003. We were also the first to manufacture and launch the Recycling Ring Recycling Plants in the PRC in 2009 and we developed the first Monoblock Recycling Plant in the PRC in 2014, according to the CCID Report. For details description of our Recycling Plants, please refer to the section headed “Our Products and Services – Hot-mix Asphalt Mixing Recycling Plants” in this section. The revenue generated from the sale of Recycling Plants has increased substantially in the past few years and accounted for approximately 16.3%, 25.8% and 51.5% of our revenue from the sales of asphalt mixing plants for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, respectively.

We strive to manufacture asphalt mixing plants with environmental-friendly and energy saving features which is able to reduce the level of energy consumption and emission of dust, smoke and noise. Through our continuous efforts, we have improved various parts of the asphalt mixing plants to achieve such goals. For instance, we have developed a two-tier dust collection and closed-loop temperature control system to suppress dust emission of our asphalt mixing plants. Our asphalt mixing plants are able to maintain their dust emission level at approximately 70 mg/Nm³ or less, which is lower than the requirement under the PRC national standard of 100 mg/Nm³. In addition, our asphalt mixing plants are able to maintain its fume blackness level at Ringelmann level 1 and the noise in the control room (NCC) is generally lower than 70 dB. According to the CCID Report, these standards are amongst the highest in terms of environmental protection in the PRC.

Our customers are mainly road construction companies, road construction machinery distributors and finance leasing companies. We sell our products to our direct customers, mainly road construction companies, directly and through our distributors acting as sale agent. During the Track Record Period, our sales to direct customers accounted for approximately 91.2%, 85.0% and 79.7% of revenue from the sales of asphalt mixing plants, respectively. Over the years, we have sold over 300 asphalt mixing plants to customers mainly in the PRC and some in overseas emerging markets and developed countries, including Australia, Russia, India and certain African countries. Revenue generated from sales to customers in the PRC (excluding indirect export) accounted for 78.1%, 77.2% and 87.0% of our revenue from the sales of asphalt mixing plants for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, respectively. Expanding our business into international markets has always been one of our key business strategies. During the Track Record Period, we sold our products overseas via direct as well as indirect export sales. For direct export sales, we sold our products overseas to our customers directly or through distributors acting as sale agents in overseas countries. For indirect export sales, we sold our products to our customers in the PRC who were undertaking road construction projects overseas. For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, the sales of our products to the overseas markets (including direct and indirect export) represented approximately 21.9%, 22.8% and

BUSINESS

13.0% of our revenue from the sales of asphalt mixing plants, respectively. The decrease in the percentage of our revenue from our sales to overseas markets for the nine months ended 30 September 2014 was mainly due to a decrease in direct export sales in the period, which was mainly due to the fact that we did not recognise revenue from the sales of five asphalt mixing plants for the nine months ended 30 September 2014 with the inventory amount of approximately RMB16.5 million that we have already exported directly in the same period because the customer acceptance procedures were not completed before then. During the Track Record Period, most of our small scale asphalt mixing plants were sold by direct or indirect export sales.

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

We place great emphasis on our research and development capabilities, as we believe our success is largely dependent on technology and product innovation. Leveraging on our strong research and development capabilities, we have developed various model series of asphalt mixing plants and key components over the years. According to the CCID Report, the 4000 and 5000 model series asphalt mixing plants which we developed and launched in 2003 and 2009 respectively were the first 4000 and 5000 model series Conventional Plants launched in the PRC, and we were also the first to develop and launch various model series of Recycling Plants since 2003. We position our Group as an innovative enterprise with focuses on technological innovation and research and development. We always adhere to the idea of striving for advanced technology ahead of our competitors. As at the Latest Practicable Date, we had (i) 29 registered patents in the PRC, of which 3 were invention patents and 26 were utility model patents; (ii) 5 patents pending registration in the PRC, of which 2 were invention patents, 3 were utility model patents; (iii) and 22 software copyrights in the PRC. In addition, Beijing D&G is in the midst of transferring 7 registered utility model patents to us. For details of these intellectual property rights, please refers to paragraph headed “Appendix IV – Statutory and General Information – Intellectual property rights of our Group” in this document. During the Track Record Period, we collaborated with a number of leading research institutions in the PRC and a leading university in Hong Kong. For example, we began our collaboration with the Institute of Tsinghua University, Hebei* (河北清華發展研究院) to establish the “Resources Recycling Intelligent Equipment Technology Institute, the Institute of Tsinghua University, Hebei and D&G* (河北清華發展研究院德基資源循環利用智能裝備技術研究所)” in 2012 and we entered into a proposal regarding the project on the establishment of the “Hebei Asphalt Pavement Intelligent Equipment Technology Research Centre* (河北省瀝青路面智能裝備工程技術研究中心)” jointly with The Research Institute of Highway, the Ministry of Transport* (交通運輸部公路科學研究所) and the Institute of Tsinghua University, Hebei* (河北清華發展研究院) in 2014. We

BUSINESS

also collaborated with the Hong Kong University of Science and Technology R and D Corporation Limited in a thermal insulation board research project. For further details, please refer to the paragraphs headed “Research and Development” in this section. In addition, we were awarded the “Technological Innovation Award” (技術創新獎) in 2009 by the China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會).

Our revenue for the years ended 31 December 2012 and 2013 was approximately RMB364.3 million and RMB412.3 million, respectively, representing an increase of approximately 13.2%. Our revenue for the nine months ended 30 September 2013 and 2014 was approximately RMB266.9 million and RMB298.2 million, respectively, representing an increase of approximately 11.7%. Our profit for the years ended 31 December 2012 and 2013 was approximately RMB49.7 million and RMB72.5 million, respectively, representing an increase of approximately 45.8%. Our profit for the nine months ended 30 September 2013 and 2014 was approximately RMB39.5 million and RMB50.7 million, respectively, representing an increase of approximately 28.4%.

We have over 131,856.13 sq.m. of manufacturing facilities in Langfang, Hebei, PRC, with a designed annual production capacity of 50 sets of asphalt mixing plants. Please refer to the paragraph headed “Manufacturing Facilities and Processes” of this section for details.

COMPETITIVE STRENGTHS

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

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

We develop, design and manufacture a wide range of Conventional Plants and Recycling Plants to meet the different needs of our customers. According to the CCID Report, we are one of the few asphalt mixing plant manufacturers in the PRC which are capable of producing 5000 model series asphalt mixing plants, currently the largest asphalt mixing plant by production capacity produced on a mass production scale in the PRC. The fact that we possess the technical capabilities

- (1) According to the CCID Report, 3000 model series asphalt mixing plants are generally regarded as medium scale asphalt mixing plants in the PRC, 4000 model series or above asphalt mixing plants are generally regarded as large scale asphalt mixing plants in the PRC and 2000 model series or below are generally regarded as small scale asphalt mixing plants in the PRC.
- (2) According to the CCID Report, in 2013, there were 950 units of asphalt mixing plants manufactured in the PRC that were sold by domestic and international asphalt mixing plant manufacturers, 298 units of which were medium to large scale asphalt mixing plants and 652 units of which were small scale asphalt mixing plants. Based on 41 units of medium to large scale asphalt mixing plants manufactured and sold by us in 2013 in the PRC, our market share was approximately 13.8%.

BUSINESS

and skills needed to develop and mass produce such product attests to our outstanding research and development capabilities and strengthens our leading position in the industry. We were one of the suppliers of asphalt mixing plants in a number of key construction projects in the PRC, for example, the construction of the Beijing-Tibet Highway* (京藏高速), Beijing-Hong Kong-Macau Highway* (京港澳高速), Jiaozhou Bay Bridge* (膠州灣大橋) and Hangzhou Bay Bridge* (杭州灣大橋). Hangzhou Bay Bridge is one of the longest trans-oceanic bridges in the world. Our 4000 model series Conventional Plant was used for the construction of the Hangzhou Bay Bridge in 2007 and produced approximately a total of 300,000 tonnes of asphalt mixture.

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

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

Strong research and development capabilities

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

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

BUSINESS

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

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

We have a dedicated in-house research and development team which is responsible for the analysis and design, test trial and improvement of technical performance of new products as well as process customisation in order to provide customised solutions to our customers. For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, our research and development expenditures were approximately RMB13.4 million, RMB13.9 million and RMB11.4 million, respectively.

As a result of our research and development efforts, we own a number of patents and software copyrights. As at the Latest Practicable Date, we had (i) 29 registered patents in the PRC, of which 3 were invention patents and 26 were utility model patents; (ii) 5 patents pending registration in the PRC, of which 2 were invention patents, 3 were utility model patents; and (iii) 22 software copyrights in the PRC. In addition, Beijing D&G is in the midst of transferring 7 registered utility model patents to us. For details of these intellectual property rights, please refer to paragraph headed “Appendix IV – Statutory and General Information – Intellectual property rights of our Group” in this document.

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

BUSINESS

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

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

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

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

BUSINESS

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

We are dedicated to provide premium products and services to our customers. We maintain good and stable relationships with our major customers and have generally cooperated with them for a period of up to 6 years. We believe that we have gained loyalty from our customers. During the Track Record Period, we generated a significant portion of sales from repeated customers. Revenue generated from repeated customers during the Track Record Period was RMB147.9 million, RMB118.7 million and RMB96.4 million, respectively, representing 45.6%, 33.8% and 38.0% of our revenue from the sale of asphalt mixing plants, respectively.

While there is intense competition in our product lines, we continue to maintain our position as one of the leading market players in the PRC while building a strong international presence. We have established sales and distribution networks in the PRC and overseas markets. Over the years, we have sold over 300 units of asphalt mixing plants to customers in the PRC and overseas emerging markets and developed countries, including Australia, Russia, India and certain countries in Africa. During the Track Record Period, we sold our products to our customers within the PRC directly as well as indirectly through our distributors acting as sales agents in the PRC. We also sold our products overseas via direct as well as indirect export sales. For direct export sales, we sold our products overseas to our customers directly or through distributors acting as sales agents. For indirect export sales, we sold our products to our customers in the PRC who undertook road construction projects overseas. As at the Latest Practicable Date, we had 10 distributors across different provinces in the PRC and 5 distributors in total covering Russia, Poland and certain countries in Africa.

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

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

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

BUSINESS

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

The Twelfth Five-Year Plan also encourages environmental protection by recommending and supporting the usage of recycled asphalt mixtures in asphalt pavement maintenance and construction work. Furthermore, the 2014 version of National Policy on Areas of Key Support for New Products* (國家重點《新產品計劃支持領域 2014》) was issued in July 2013 to promote asphalt recycling equipment. We believe that this policy directive provides significant potential for further growth in asphalt mixing plants with recycling features.

It has been reported that as part of its “One Belt, One Road” development strategy, the PRC government will contribute US\$40 billion to set up a Silk Road Fund to provide investment and financing support to carry out infrastructure, resources, industrial cooperation, financial cooperation and other projects related to connectivity for Asia.

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

Experienced and dedicated management team

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

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

BUSINESS

BUSINESS STRATEGIES

Expand production capacity to meet demands for our products

We intend to expand our production capacity to meet the demands for our products and further increase our market share in both PRC and overseas. We have faced production capacity constraints in recent years as our production facilities have been operating at maximum capacity and we have to outsource part of our production, such as non-key parts and components to subcontractors, in order to meet demands for our products. We plan to (i) expand our annual production capacity to over 80 units of asphalt mixing plants; (ii) increase the quantity of non-key parts or components to be outsourced to subcontractors; and (iii) standardise our product components in order to interchange amongst models and industrialisation of our key components. We believe that the expansion of our production capacity will enable us to meet market demands for our products, increase our sales revenue and expand our market share. The total costs of our plan to expand our annual production capacity to over 80 units of asphalt mixing plants are expected to be approximately RMB100.0 million. We intend to finance the costs of expansion of manufacturing facilities by applying 50% of the proceeds from the [REDACTED]. The work to expand our production capacity will begin after Listing and is expected to be completed within 18 months after Listing.

Enhance our research and development capabilities

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

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

BUSINESS

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

We will apply approximately 20% of the proceeds from the [REDACTED] to enhance our research and development capability involving hardware and software upgrade, including acquiring computers and testing equipment as well as upgrading our design, technology and design plan management system, and investment in research and development projects, including those relating to the development of new products. We believe that our continued enhancement in our research and development capabilities will increase our competitiveness, thereby helping us to maintain our leading position in the asphalt mixing plant industry.

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

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

The Ministry of Transport released the Guidance on Promoting Road Pavement Material Recycling* (《交通運輸部關於加快推進公路路面材料循環利用工作的指導意見》) issued in 2012 requires local transportation departments to formulate a scientific working program to clarify the objectives, key tasks and measures relating to reclaiming and recycling of used pavement materials, targeting at achieving approximately “zero wastage” of used pavement materials in the PRC by the end of 2015; at least 95% of used pavement materials should be reclaimed; at least 50% of the used pavement materials should be recycled, whereby the recycling rate in the eastern, middle and western regions of the PRC should be at least 60%, 50% and 40%, respectively and 2015. The Guideline further provides that the recycling rate of the used pavement materials in the PRC should be at least 90% by 2020. We believe that this policy provides significant growth potential for asphalt mixing plants with recycling features. Furthermore, the Development and Planning Office of the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部發展計劃司) issued the 2014 version of the National Policy on Areas of Key Support for New Products* (國家重點新產品計劃支持領域) (the “Policy”) in July 2013. Under the “Energy-saving and Environmental Protection Industry” category of the Policy, construction waste and road asphalt pavement utilisation equipment (建築廢棄物和道路瀝青資源化利用設備) were included in the list of “Equipment and New Products with Recycling Technology” (循環利用技術設備及新產品) which are eligible for state support.

BUSINESS

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

Expand our sales coverage within the PRC and globally

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

Our overseas expansion plan will also play an integral part in our expansion plan. For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, we sold our products overseas via direct as well as indirect export sales. For direct export sales, we sold our products overseas to our customers directly or through distributors acting as sales agent in overseas countries. For indirect export sales, we sold our products to our direct customers in the PRC who undertook road construction projects overseas. During the Track Record Period, the revenue generated from overseas sales of asphalt mixing plants (including direct and indirect export sales) accounted for approximately 21.9%, 22.8% and 13.0% of our revenue from the sales of asphalt mixing plants, respectively. The decrease in the percentage of our revenue from our sales to overseas markets for the nine months ended 30 September 2014 was mainly due to a decrease in direct export sales of our asphalt mixing plants in the period, which was mainly due to the fact that we did not recognise revenue from the sale of five asphalt mixing plants for the nine months ended 30 September 2014 with the inventory amount of approximately RMB16.5 million that we have already exported directly in the same period because the customer acceptance procedures were not completed before then. We intend to gradually increase our revenue from the sale of our products overseas and strengthen our overseas sales and distribution networks and alliances with certain overseas targets so as to significantly increase the geographic coverage of our distribution and service networks. This will enable us to balance out the potential market risks that may arise in the PRC. It has been reported that as part of its “One Belt, One Road” development strategy, the PRC government will contribute US\$40 billion to set up a Silk Road Fund to provide investment and financing support to carry out infrastructure, resources, industrial cooperation, financial

BUSINESS

cooperation and other projects related to connectivity for Asia. Together with the fast growing demand on infrastructure constructions in the developing countries, we plan to increase our market share in emerging markets such as Southeast Asian, Middle East, African countries and India which we believe there would have strong demand for asphalt mixing plants.

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

By leveraging our past performance and our competitive strengths, we believe that we are well-positioned to maintain and increase our market share in the PRC and overseas markets despite the intense competition in some of these markets. We intend to apply approximately 10% of the proceeds of the [REDACTED] to finance the expansion of our sales and distribution network and our promotional activities.

Continue to broaden our product offerings and development of new businesses

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

Leveraging on our knowledge and experience on the components of asphalt mixing plants and asphalt mixtures, we also plan to develop new businesses, including manufacturing and distributing of components of asphalt mixing plants and producing asphalt mixtures for sale. In relation to the manufacture of components of asphalt mixing plants, in April 2014, we entered into a letter of intent with C.B.S. Italia SRL Combustion Burner Service Italia (“CBS”), a well-known Italian burner manufacturer, pursuant to which we had been granted the right to manufacture and assemble various burners of asphalt mixing plants in China by applying technology owned by CBS and the associated rights to market and distribute such burners in the PRC and global markets. In relation to the production of asphalt mixtures for sale, we plan to build asphalt mixing plants of our own to produce the asphalt mixtures. We intend to apply approximately 10% of the proceeds of the [REDACTED]s to finance the development of these new businesses.

BUSINESS

OUR BUSINESS MODEL

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

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

	Year ended 31 December				Nine months ended 30 September			
	2012		2013		2013		2014	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
					(Unaudited)	(Unaudited)		
Sales of asphalt mixing plants	324,393	89.0	350,792	85.1	230,638	86.4	253,987	85.2
Sales of spare parts and components and provision of equipment modification services	27,404	7.6	44,238	10.7	26,271	9.8	28,579	9.5
Operating lease income of asphalt mixing plants	12,542	3.4	17,230	4.2	10,033	3.8	15,674	5.3
	<u>364,339</u>	<u>100.0</u>	<u>412,260</u>	<u>100.0</u>	<u>266,942</u>	<u>100.0</u>	<u>298,240</u>	<u>100.0</u>

OUR PRODUCTS AND SERVICES

Products

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

BUSINESS

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

	Year ended 31 December						Nine months ended 30 September					
	2012			2013			2013			2014		
	Turnover	Number of Plants	Average	Turnover	Number of Plants	Average	Turnover	Number of Plants	Average	Turnover	Number of Plants	Average
			Selling Price			Selling Price			Selling Price			Selling Price
<u>RMB'000</u>		<u>RMB'000</u>	<u>RMB'000</u>		<u>RMB'000</u>	<u>RMB'000</u>		<u>RMB'000</u>	<u>RMB'000</u>		<u>RMB'000</u>	
Conventional Plants												
5000 model series	56,948	6	9,491	23,221	3	7,740	14,120	2	7,060	43,599	5	8,720
4000 model series	109,651	15	7,310	117,610	16	7,351	81,598	11	7,418	32,968	5	6,594
3000 model series	66,297	10	6,630	71,011	11	6,456	45,053	7	6,436	35,996	6	5,999
2000 model series or below	38,600	10	3,860	48,385	11	4,399	39,036	9	4,337	10,684	3	3,561
	<u>271,496</u>	<u>41</u>	<u>6,622</u>	<u>260,227</u>	<u>41</u>	<u>6,347</u>	<u>179,807</u>	<u>29</u>	<u>6,200</u>	<u>123,247</u>	<u>19</u>	<u>6,487</u>
Recycling Plants												
4000 model series	15,800	2	7,900	62,465	8	7,808	22,740	3	7,580	75,517	10	7,552
3000 model series	23,898	3	7,966	24,126	3	8,042	24,126	4	6,032	42,786	7	6,112
2000 model series or below	13,199	3	4,400	3,974	1	3,974	3,965	1	3,965	12,437	3	4,146
	<u>52,897</u>	<u>8</u>	<u>6,612</u>	<u>90,565</u>	<u>12</u>	<u>7,547</u>	<u>50,831</u>	<u>8</u>	<u>6,354</u>	<u>130,740</u>	<u>20</u>	<u>6,537</u>
Total	<u>324,393</u>	<u>49</u>	<u>6,620</u>	<u>350,792</u>	<u>53</u>	<u>6,619</u>	<u>230,638</u>	<u>37</u>	<u>6,233</u>	<u>253,987</u>	<u>39</u>	<u>6,512</u>

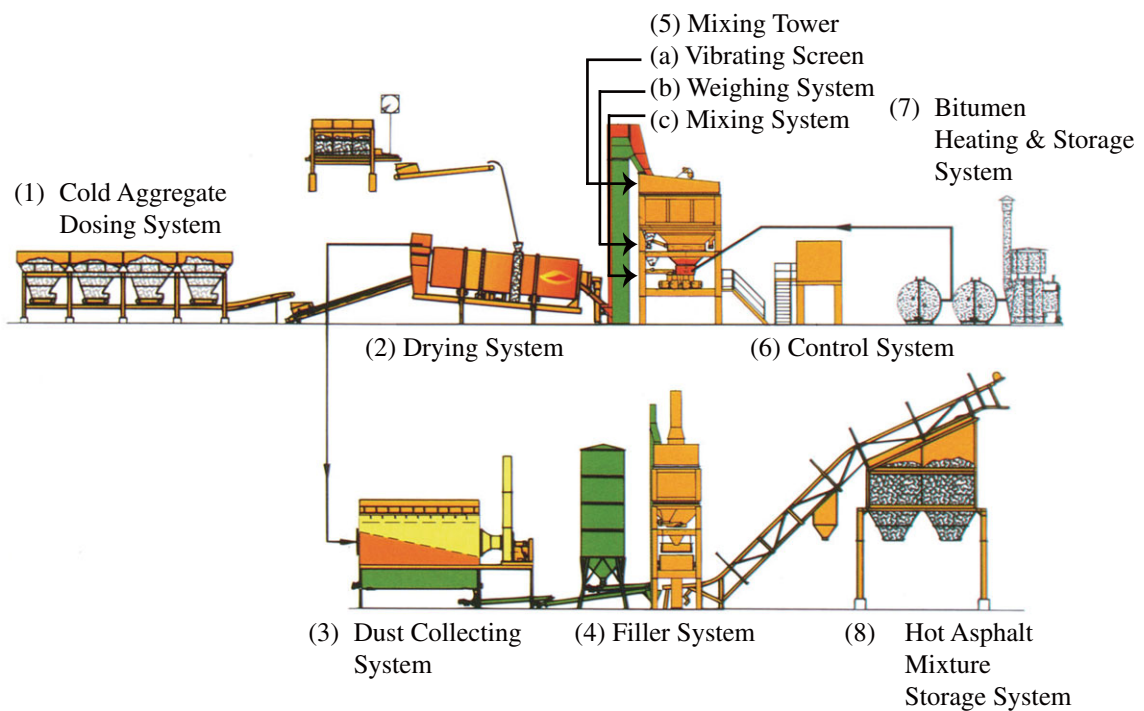
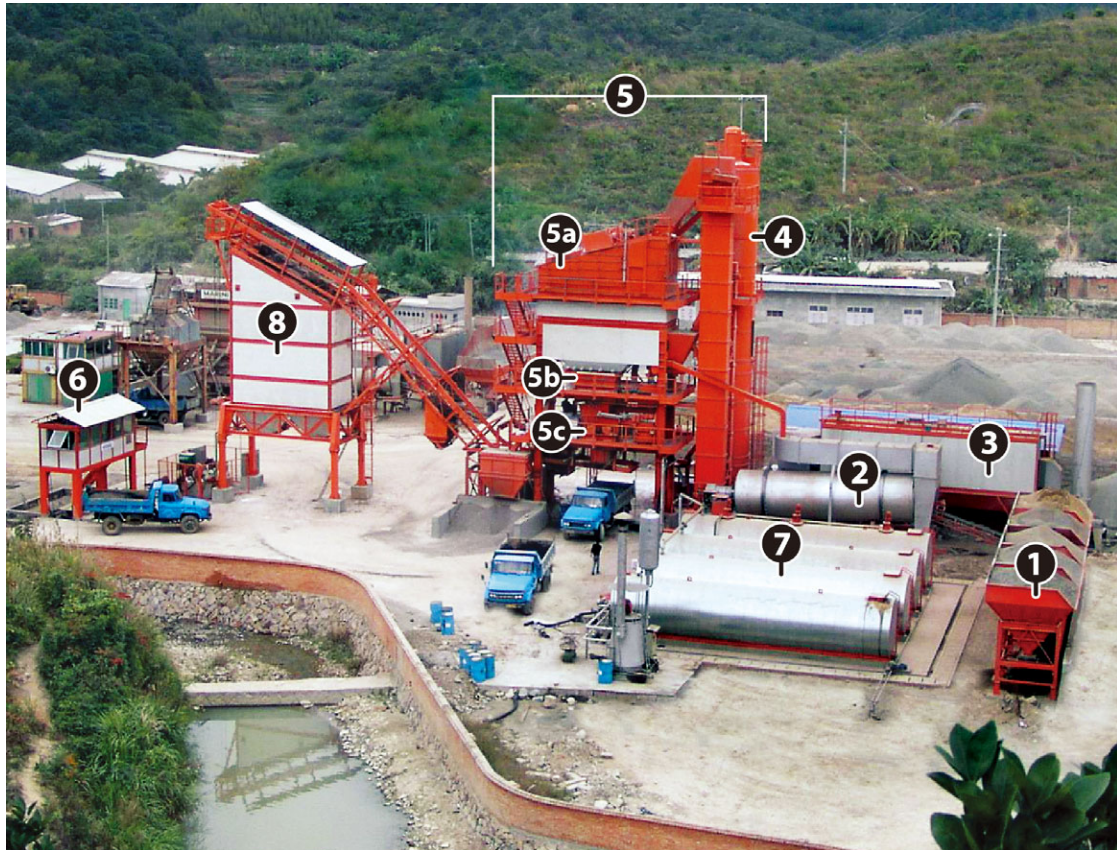
(Unaudited)

(Unaudited)

BUSINESS

Conventional Hot-mix Asphalt Mixing Plant (常規廠拌瀝青混合料攪拌設備)

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



BUSINESS

(1) Cold Aggregate Dosing System



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

(2) Drying System



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

BUSINESS

According to the CCID Report, this is one of the systems in 3000 model series or above asphalt mixing plants the manufacture of which requires advanced technical capabilities. Examples of the advanced technical know-how involved in the drying system include (i) the control of the flame in the burner to heat the aggregates to the required temperatures for further processing and remove moisture of the aggregates to a desirable level without damaging the aggregates, (ii) the improvement of heat exchange efficiency of the drum dryer; and (iii) the use of different types of fuel for the burner; and (iv) the improvement of burning efficiency of the burner. As examples of our technical capabilities, we have self-developed burners that run on different types of fuel, including diesel, heavy oil, gas or coal fines and we have obtained 8 patents and are applying for 2 patents in the PRC in relation to the drying system of asphalt mixing plants, including a patent in relation to shape and layout of shovelling paddles inside the drum dryer with an aim to improving the heat exchange efficiency and a patent in relation to the design of fuel nozzles for burners with an aim to improving fuel efficiency.

(3) Dust Collecting System



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

BUSINESS

(4) Filler System



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

(5) Mixing Tower



BUSINESS

(a) Vibrating Screening System



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

(b) Weighing system



After screening, hot aggregates are fed into the hot aggregate bins underneath and then into the weighing scale for metering. Weighed and metered hot aggregates, fillers and bitumen are then fed into the mixer for mixing. Our asphalt mixing plants require a weighing system with a high degree of weighing accuracy, thus enabling the ratio of bitumen and aggregates to strictly

BUSINESS

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

(c) Mixing System



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

BUSINESS

(6) Automated Control and Production Management System



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

(7) Bitumen Heating & Storage System



BUSINESS

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

(8) Hot Asphalt Mixture Storage System



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

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



BUSINESS

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

<u>Model</u>	<u>2000 model series or below</u>	<u>3000 model series</u>	<u>4000 model series</u>	<u>5000 model series</u>
Rated Production Capacity <i>(tonnes per hour)</i>	100-180	200-240	320	400
Precise Temperature Control for Aggregate <i>(degrees Celsius)</i>	≤ 5	≤ 5	≤ 5	≤ 5
Drum Dryer Diameter <i>(millimeters)</i>	1,600-2,200	2,200-2,500	2,800	3,000
Dust Emission <i>(mg/Nm³)</i>	≤ 70	≤ 70	≤ 70	≤ 70
Section Screening ⁽¹⁾	4 to 5 sections	5 sections	6 sections	6 sections
Hot Aggregate Bin Volume <i>(m³)</i>	21	40	75	80
Mixer Rated Capacity <i>(kg)</i>	1,300-2,000	2,500-3,000	4,000	5,000
Approximate Installed Power <i>(kW)</i>	333-494	557-639	840	983

Note:

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

During the Track Record Period, revenue generated from the sale of Conventional Plants accounted for approximately 83.7%, 74.2% and 48.5% of our revenue from the sales of asphalt mixing plants, respectively.

Hot-mix Asphalt Mixing Recycling Plant

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

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

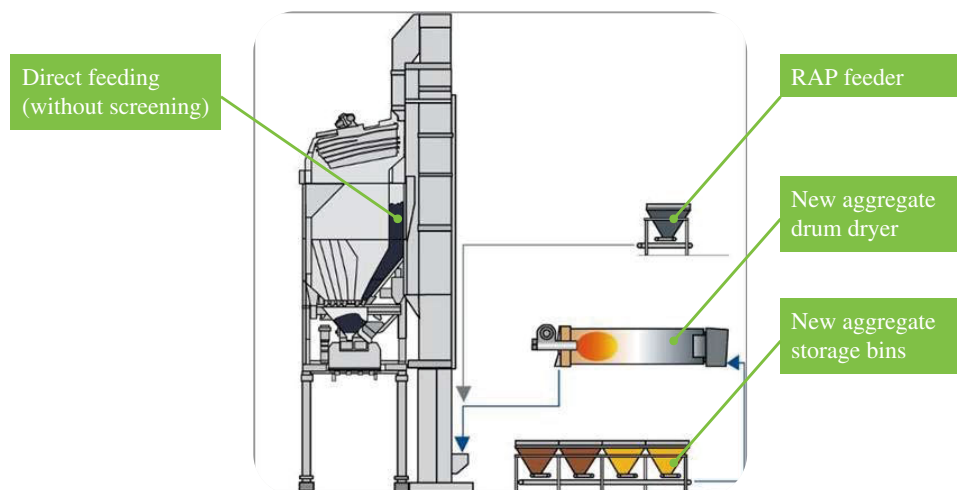
BUSINESS

and 4000 model series, with a production capacity of 240 and 320 tonnes per hour, respectively. According to the CCID Report, we were the first manufacturer in the PRC who manufactured and launched Recycling Plants with 15% designed RAP added capacity and Double Drum Recycling Plants with 50% designed RAP added capacity. We were also the first to manufacture and launch the Recycling Ring Recycling Plants in the PRC in 2009 and we developed the first Monoblock Recycling Plant in the PRC in 2014, according to the CCID Report.

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

Integrated Recycling Plants Product Series

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

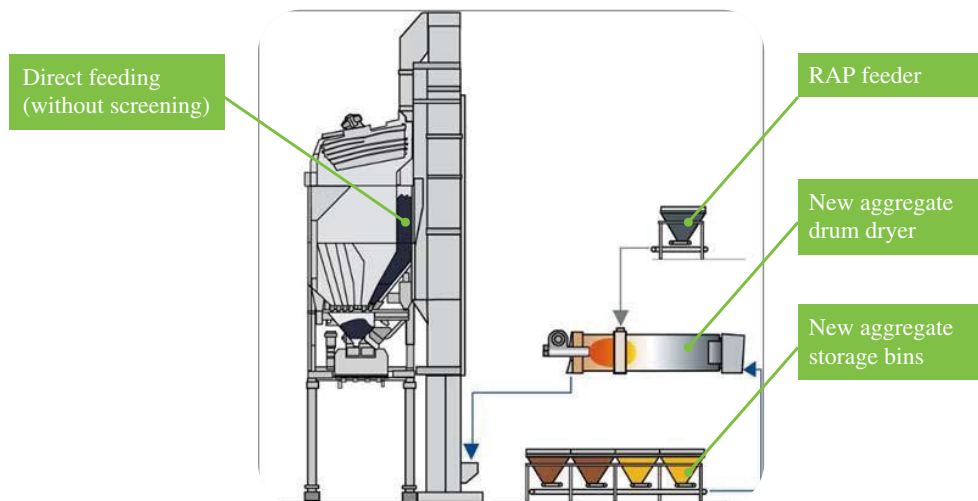


New aggregates will be heat up in the drum dryer to a temperature that is higher than the regular temperature required for production and fed into the aggregate elevator for subsequent processing. At the same time, RAP will be conveyed from the RAP feeder to the aggregate elevator via a conveyor belt. The new aggregates and the RAP are mixed together in the mixer and through such process, the RAP will attain the desired production temperature through heat transfer by absorbing heat from the hot new aggregates. The conveyor belts for new aggregates and RAP are equipped with weighing devices that are able to control the RAP ratio via volume measurement

BUSINESS

approach. The weighing accuracy derived from such approach is relatively low compared to other types of Integrated Recycling Plants. Screening is usually not suitable for this processing method as the new aggregates are mixed with the RAP (which contains bitumen) before it reaches the screening stage. As such, the quality of the recycled asphalt mixtures produced will be affected. This product series has a maximum designed RAP added capacity of 20%. Although its designed RAP added capacity is relatively low compared to other types of Integrated Recycling Plants, nonetheless, Recycling Plants which adopt such processing method are easier to operate and its production cost and sales price is also relatively lower compared to other types of Integrated Recycling Plants.

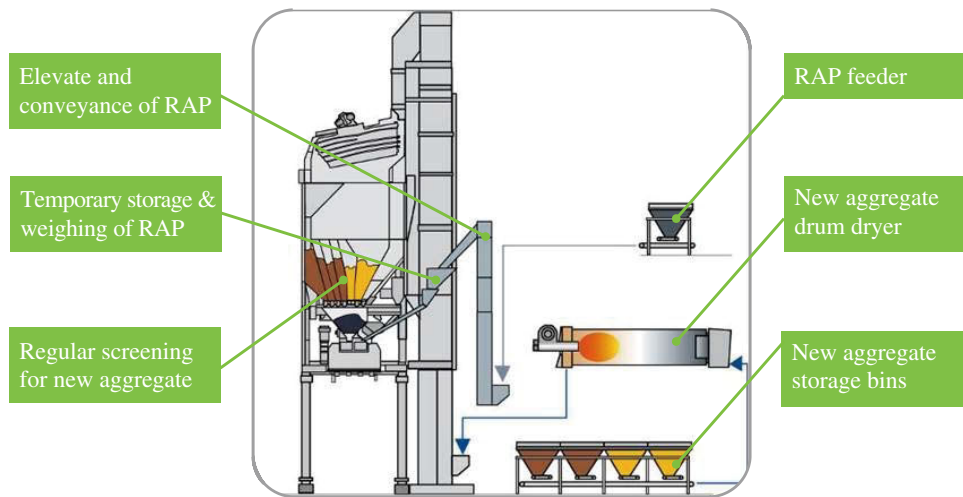
Type 2 – “Recycling Ring” series (adding RAP into drum dryer through recycling ring)



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

BUSINESS

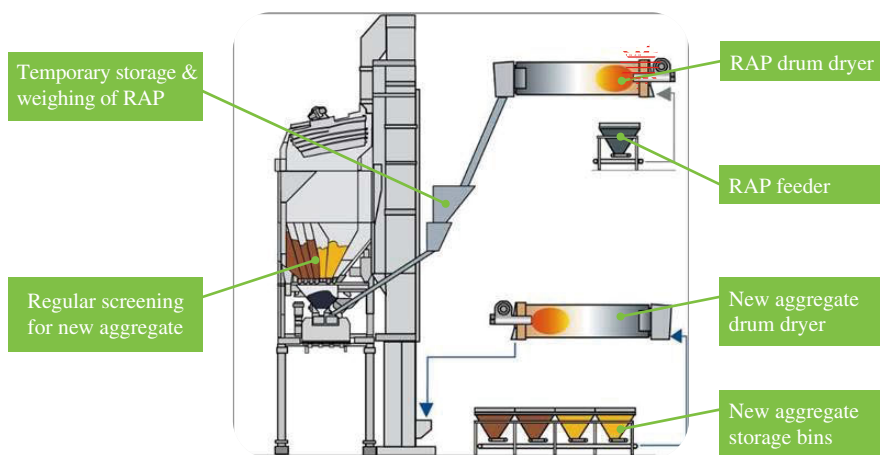
Type 3 – “Direct Feeding – Mixer” series (adding RAP directly into mixer)



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

BUSINESS

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



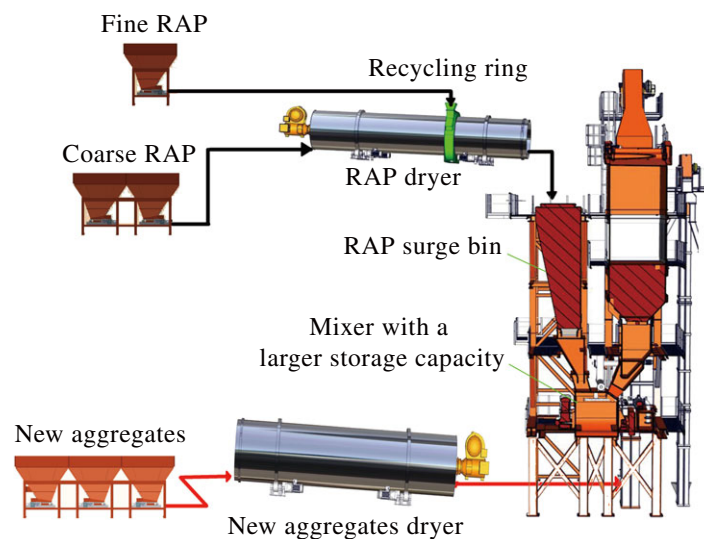
Compared to Type 3 – “Direct Feeding – Mixer” series, this product series contains a second drum dryer dedicated for heating of RAP. This series retained the advantages of Type 3 – “Direct Feeding – Mixer” series and simultaneously improved its RAP heating capacity, increasing its designed RAP added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

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

BUSINESS

Double Drum processing method will incur higher cost but it is able to produce recycled asphalt mixtures with higher RAP content and it is suitable for projects which require recycled asphalt mixtures with higher RAP percentage or which have stringent quality requirements.

Monoblock Recycling Product Series



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

During the Track Record Period, the revenue generated from the sale of Recycling Plants has increased significantly and it accounted for approximately 16.3%, 25.8% and 51.5% of our revenue from the sales of asphalt mixing plants, respectively.

BUSINESS

Services

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

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

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

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

BUSINESS

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

We sell spare parts and components for our asphalt mixing plants to our customers. Our equipment modification services mainly include modifying our Conventional Plants, such as the installation of components with hot-mix asphalt mixing recycling functions, to modify control systems, burner systems and end-product hot mix storage bins. We also offer ancillary installation and adjustment services if required. During the Track Record Period, revenue generated by our sale of spare parts and component and provision of equipment modification services amounted to approximately RMB27.4 million, RMB44.2 million and RMB28.6 million, respectively, accounting for approximately 7.6%, 10.7% and 9.5% of our total revenue, respectively.

Operating lease of our products

We offer operating lease of our products directly to our customers. For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, revenue generated from operating lease of our products amounted to approximately RMB12.5 million, RMB17.2 million and RMB15.7 million, respectively, accounting for approximately 3.4%, 4.2% and 5.3% of our total revenue, respectively.

MANUFACTURING FACILITIES AND PROCESSES

Manufacturing facilities

We currently manufacture our products at our manufacturing facilities in Langfang, Hebei, PRC. Our manufacturing facilities have a total area of approximately 131,856.13 sq.m., of which 100,435.38 sq.m. is owned by us and 31,420.75 sq.m. is leased to us. The table below sets out the annual production capacity of our manufacturing facilities, actual production volume and utilisation rate during the Track Record Period:

Year/Period	Annual ⁽¹⁾ Production Capacity	Actual Production Volume	Utilisation Rate
2012	50	49	98.0%
2013	50	53	106.0%
Nine months ended 30 September 2014 ⁽²⁾	50	52	104.0%

Note:

1. The calculation of the annual production capacity is based on the following:
 - (a) The number of total work hours to produce 2000 model series or below asphalt mixing plants to 5000 model series asphalt mixing plants ranges from approximately 2,760 hours to 4,350 hours. For the purpose of determining the total work hours to produce one asphalt mixing plant, we use the total work hours of approximately 3,950 hours to produce one 3000 model series asphalt mixing plants as the basis.
 - (b) The total work hours of our manufacturing facilities in a year are 198,720 hours, based on the assumptions that there is one shift of eight hours work per day, 276 working days per year (including 10% overtime), 90% efficiency and 100 production staff.

BUSINESS

- (c) The annual production capacity is then calculated to be the total work hours of our manufacturing facilities in a year divided by the average total work hours to produce one asphalt mixing plant, which is equal to approximately 50 plants.
2. On the basis of annualisation of actual production volume for the nine months ended 30 September 2014.

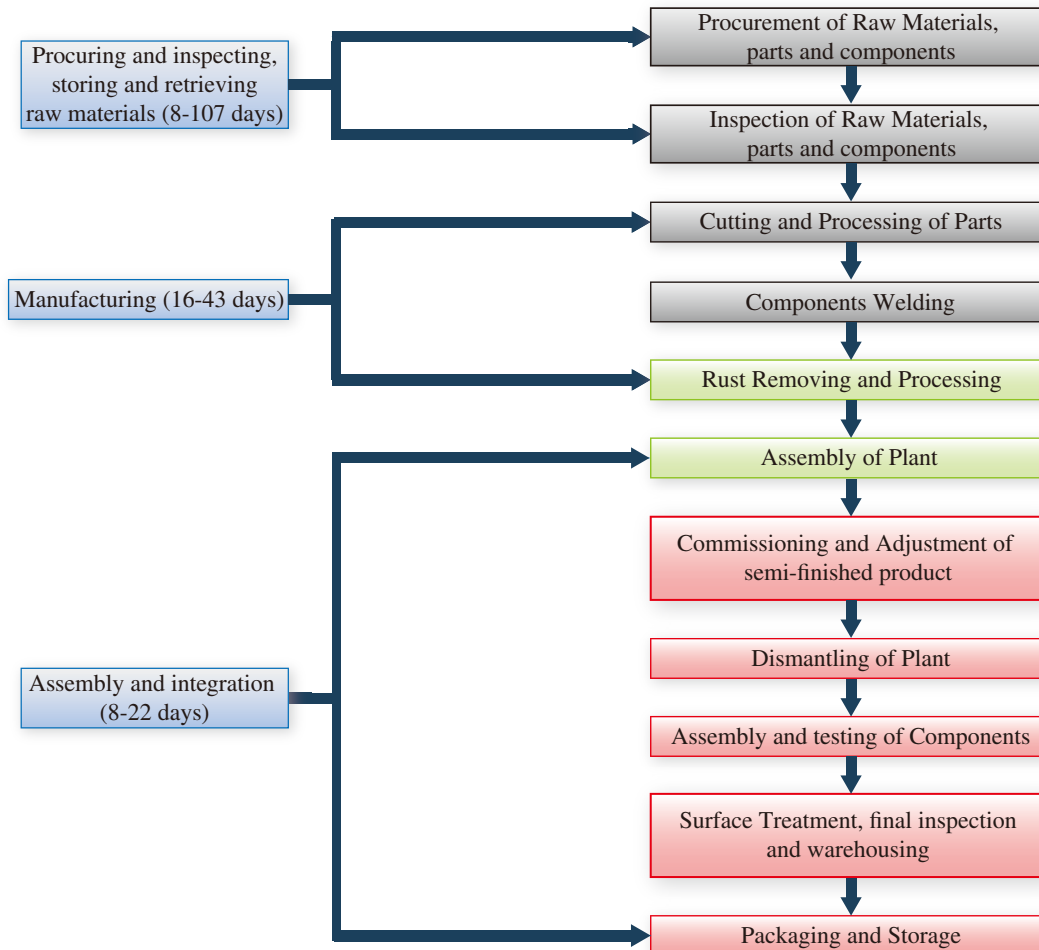
As can be seen from the table above, we faced capacity constraints during the Track Record Period. Our utilisation rates in 2013 and for the nine months ended 30 September 2014 were slightly larger than 100% mainly due to the additional hours of overtime work and outsourcing of the production of certain non-key parts and components to our subcontractors in those periods as we sought to improve our production capacity in light of our production capacity constraints. We plan to expand the size of our manufacturing facilities in Langfang in order to meet the anticipated increasing demands for our products. For details of our expansion plan, please refer to the paragraph headed “Business Strategies – Expand production capacity to meet demand for our products” in this section.

Our major assets and equipment used in the production process include cranes and gantries. All our cranes and gantries are owned by us with age ranging from 17 months to 156 months old and are subject to regular inspections and daily maintenance if and when required.

BUSINESS

Manufacturing Process

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



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

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

BUSINESS

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

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

Delivery, Installation and Assembly of Asphalt Mixing Plants

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

BUSINESS

Upon completion of the installation and commissioning followed by a trial run of the plant with an aggregate production of 36 hours to 48 hours or 2,000 to 50,000 tonnes (depending on individual cases) of qualified asphalt mixtures, whichever is earlier, acceptance check will then be carried out. If either party disagrees with the results of the acceptance check, or refuses to sign the acceptance certificate, an authoritative inspection center recognised by both parties should be appointed to carry out the check. Under certain circumstances, if neither the acceptance certificate has been signed nor the inspection center has been appointed, acceptance will be deemed to have taken place when an aggregate of 5,000 to 10,000 tonnes (depending on individual cases) of qualified asphalt mixtures have been produced. In other cases, if the customer is unable to produce a certificate issued by the appointed inspection centre evidencing unsatisfactory test results for our products, acceptance is deemed to have taken place.

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

PROCUREMENT, RAW MATERIALS, PARTS AND COMPONENTS AND SUPPLIERS

Procurement

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

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

Raw Materials, Parts and Components

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

The total costs of our raw materials, parts and components with respect to the sales of asphalt mixing plant for the years ended 31 December 2012, 31 December 2013 and the nine months ended 30 September 2014 were RMB167.6 million, RMB178.1 million and RMB135.7 million, respectively, accounting for approximately 78.1%, 74.7%, and 77.7% of the total cost of sales, respectively.

BUSINESS

Suppliers

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

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

We usually do not enter into framework agreements with our suppliers but we may enter into framework agreement with our suppliers in certain circumstances. For example, we have entered into a legally binding framework agreement in July 2014 with one supplier at its request in order to obtain preferential prices for the raw materials, parts and components. The framework agreement is for a period of one year and we are entitled to the agreed preferential prices if we meet an annual purchase target of RMB2,000,000. Payment is to be settled within 30 days upon issuance of invoice. We are given a 30-day credit period and a credit limit of RMB400,000 under the framework agreement. The supply may be suspended if the payment requirement has not been met. If either party breached the agreement and no action or remedy has been taken within 30 days by the defaulting party after notification has been issued, the agreement will automatically be terminated. For the majority of our suppliers, we do not enter into any framework agreement but we enter into a sale and purchase contract or a standard purchase order on an order-by-order basis. The price and quantity for each procurement are specified in each sale and purchase contract or purchase order. In addition, we provide to some of our suppliers a monthly to quarterly forecast of the raw materials, parts and components required by us so that they can reserve the raw materials, parts and components we need in advance for us. For more details of our inventory control, please refer to the paragraph headed “Inventory Policy” under this section.

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

BUSINESS

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

Our five largest suppliers for each of the year ended 31 December 2012, 2013 and the nine months ended 30 September 2014 were based in Italy and the PRC specialising in the marketing and distribution of construction machinery and building materials; designing and manufacturing gear motors, drive system, planetary gearbox, inverters and photovoltaic solutions; distribution of electrical solutions and equipment manufacturing; provision of electric wires and cables; supplying of motion and fluid control products; designing and manufacturing team boiler, hot water boilers and thermal fluid heater; provision of steel products and manufacturing supplying equipment for bulk material handling, dust filtration, waste water and vibration technology. We maintain good and stable relationships with these suppliers and have generally cooperated with them for 3 to 10 years.

For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, the aggregate purchases from our five largest suppliers amounted to approximately RMB36.1 million, RMB39.4 million and RMB32.2 million, respectively, representing approximately 18.1%, 16.6% and 14.8% of our total purchases for the same periods, respectively, and the purchases from our largest supplier amounted to approximately RMB10.2 million, RMB11.4 million and RMB8.1 million, respectively, representing approximately 5.1%, 4.8% and 3.7% of our total purchases for the same periods, respectively. To the best of the knowledge of our Directors, none of our Directors or their associates, or any Controlling Shareholder owns more than 5% of the issued share capital or has any controlling interest in any of our five largest suppliers during the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014.

Subcontracting Arrangements

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

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

BUSINESS

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

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

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

During the Track Record Period, one of our five largest customers in 2012, an individual customer who is principally engaged in the equipment leasing business (the “**Individual Customer**”), was also our subcontractor as he held approximately 25% equity interests in a company which supplied certain components and parts to us such as cold feeder bins, bitumen storage tanks and filler silos (the “**Subcontractor I**”). We have maintained a good business relationship with Subcontractor I for three years. Subcontractor I was our largest subcontractor for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, however, we do not place heavy reliance on Subcontractor I and we have a list of alternative subcontractors who are able to offer similar products that we could easily switch to. The aggregate purchases from Subcontractor I accounted for approximately 10.1%, 5.6% and 5.3% of our total purchases for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, respectively. For further details of the Individual Customer and the arrangement, please refer to the paragraphs headed “Customers, Distribution Network and Sales and Marketing” in this section.

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

Our five largest subcontractors for each of the year ended 31 December 2012, 2013 and the nine months ended 30 September 2014 are companies in the PRC specialising in designs, manufactures and installs machineries and equipment; painting of heat-resistant and anti-corrosive coatings and several machinery components manufacturers. We have developed long-standing relationships with most of our subcontractors and have worked with the majority of them for approximately 4 to 6 years.

BUSINESS

For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, the aggregate purchases from our subcontractors amounted to approximately RMB79.5 million, RMB93.3 million and RMB84.9 million, respectively, representing approximately 40.0%, 39.3% and 39.0% of our total purchases for the same period, respectively. For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, the aggregate purchases from our five largest subcontractors amounted to approximately RMB44.4 million, RMB41.7 million and RMB41.3 million, respectively, representing approximately 22.3%, 17.5% and 19.0% of our total purchases for the same periods, respectively, and the purchases from our largest subcontractor amounted to approximately RMB20.1 million, RMB13.3 million and RMB11.6 million, respectively, representing approximately 10.1%, 5.6% and 5.3% of our total purchases for the same periods, respectively. To the best of the knowledge of our Directors, none of our Directors or their associates, or any Controlling Shareholder owns more than 5% of the issued share capital or has any controlling interest in any of our subcontractors during the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014.

Inventory Policy

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

We monitor our inventory levels based on the demands set by our production plans. Our average inventory days were 155, 152 and 186 days for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, respectively.

We actively monitor our inventory stock on the level of raw materials, parts and components that we keep in stock. We generally place purchase orders for imported raw materials, parts and components approximately three months in advance of our production plans. We maintain an inventory of these raw materials, parts and components for satisfying our production needs of about 60 to 90 days. We place purchase orders for raw materials, parts and components supplied or produced by PRC suppliers or subcontractors based on our latest production plans and maintain an inventory supply for our production needs of approximately 30 to 45 days. We also keep stock of certain raw materials, parts and components and components that we use on a recurring basis. Further, in order to manage the risk that our inventory will devalue over time if we overstock, we may make arrangements with our subcontractors to store those components that we use on a recurring basis at the subcontractors' warehouses. This enables us to place immediate purchase orders and use the warehoused raw materials and components to meet our production needs.

Logistics

Our procurement department invites logistics companies to bid for the delivery service of the finished products from our factory or from our subcontractor's factories (if required) to our customers' job sites, selects the most competitive transport service and monitors the quality of service from such transport companies. Where our suppliers or subcontractors provide raw

BUSINESS

materials or semi-finished products, our procurement department arranges for the transport of such raw materials or semi-finished products to our factory, and informs our quality control department to carry out quality inspection. Raw materials, parts and components and other semi-finished products that pass the quality inspection will be allowed to be stored in the warehouse and record as inventory.

CUSTOMERS, DISTRIBUTION NETWORK AND SALES AND MARKETING

Sales

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

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

BUSINESS

During the Track Record Period, we sold our products primarily to our domestic customers in the PRC. In addition, we also sold our products to customers or end-users located in, amongst others, Russia, India, Australia, Middle East and Africa through direct sales to or through our overseas distributors; or indirectly through sales to customers in the PRC which had undertaken road construction projects in overseas countries. We have 10 distributors across different provinces in the PRC and 5 distributors in total covering Russia, Poland and certain countries in Africa. The table below sets forth our revenue and volume from the sale of our products by domestic and international sales during the Track Record Period:

	Year ended 31 December				Nine months ended 30 September			
	2012		2013		2014			
	RMB'000	Unit	RMB'000	Unit	RMB'000	Unit		
China			China		China			
Domestic	253,343	36	Domestic	270,623	39	Domestic	221,059	33
Indirect export ¹			Indirect export ¹			Indirect export ¹		
Ethiopia	7,740	2	Mauritania	3,044	1	Ethiopia	3,043	1
Angola	9,316	2	Angola	9,421	2	Russia	11,021	2
Brunei	3,914	1	Congo	11,042	2	Congo	5,265	1
			Senegal	5,750	1			
	20,970	5		29,257	6		19,329	4
	274,313	41		299,880	45		240,388	37
Outside China			Outside China			Outside China		
Direct export			Direct export			Direct export		
Russia	35,522	4	Russia	41,444	6	Russia	8,465	1
Mongolia	5,162	1	Australia	6,844	1	India	5,134	1
India	9,396	3	India	2,624	1			
	50,080	8		50,912	8		13,599	2
Total	324,393	49	Total	350,792	53	Total	253,987	39

Note:

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

BUSINESS

Customers

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

	Year ended 31 December				Nine months ended 30 September	
	2012		2013		2014	
	<i>RMB</i> ('000)	%	<i>RMB</i> ('000)	%	<i>RMB</i> ('000)	%
Direct customers ⁽¹⁾	295,930	91.2	298,055	85.0	202,458	79.7
Finance lease companies	12,263	3.8	47,866	13.6	32,229	12.7
	308,193	95.0	345,921	98.6	234,687	92.4
Distributor ⁽²⁾	16,200	5.0	4,871	1.4	19,300	7.6
Total	<u>324,393</u>	<u>100.0</u>	<u>350,792</u>	<u>100.0</u>	<u>253,987</u>	<u>100.0</u>

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

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

BUSINESS

Over the years, we have sold over 300 asphalt mixing plants to customers in the PRC and overseas emerging markets and developed countries as shown in the following maps:



- | | | | |
|--------------|------------------|----------------|----------------|
| 1. Anhui | 9. Hebei | 14. Jiangsu | 21. Shanxi |
| – Bengbu | – Handan | – Suqian | – Xian |
| – Huangshan | – Langfang | – Zhengjiang | 22. Sichuan |
| – Heifei | – Xingtai | 15. Jiangxi | – Yaan |
| – Minguang | – Zhangjiakou | – Fushun | – Ziyang |
| 2. Chongqing | 10. Heilongjiang | – Pingxiang | 23. Tianjin |
| – Chongqing | – Beian | – Shangrao | – Tianjin |
| 3. Fujian | 11. Hanan | – Yichun | 24. Tibet |
| – Fuzhou | – Nanyang | 16. Jilin | – Linzhi |
| – Longyang | – Puyang | – Baishan | 25. Xinjiang |
| 4. Gansu | – Zhengzhou | 17. Liaoning | – Beitun |
| – Gannanzhou | – Zhumadian | – Benxi | – Hami |
| – Linxia | 12. Hubei | – Kaiyuan | – Kelamayi |
| – Longnan | – Danjiangkou | – Shenyang | – Yili |
| 5. Guangdong | – Huanggang | 18. Neimenggu | 26. Yunan |
| – Dongguan | – Macheng | – Bayanzhouer | – Qujing |
| – Jieyang | – Shiyang | – Jining | – Ruili |
| – Meizhou | – Songzi | – Wulanchabuer | 27. Zhengjiang |
| 6. Guangxi | – Xianyang | 19. Ningxia | – Dongyang |
| – Beihai | 13. Hunan | – Guyuan | – Ganzhou |
| – Qinzhou | – Changde | – Wuzhong | – Haining |
| 7. Guizhou | – Chenzhou | – Yinchuan | – Jinhua |
| – Bijie | – Hengyang | 20. Shandong | – Lanxi |
| – Guiyang | – Huaihua | – Jinan | – Ningbo |
| – Zunyi | – Loudi | – Jining | – Taizhou |
| 8. Hainan | – Xiangtan | – Liaocheng | – Wenzhou |
| – Qiongzong | – Yueyang | – Linyi | |
| | – Zhuzhou | – Zibo | |

BUSINESS



An Individual Customer (“**Individual Customer**”), who is also one of our five largest customers in 2012, entered into contracts with us in his personal capacity and he procured our products mainly for his own road construction projects and leasing to third parties. The Individual Customer also holds approximately 25% equity interest in one of our major subcontractors which supplies certain components and parts to us such as cold feeder bins, bitumen storage tanks and filler silos (“**Subcontractor I**”). Subcontractor I was also our largest subcontractor in 2012, 2013 and the nine months ended 30 September 2014. Subcontractor I was selected based on commercial consideration. We have expanded our sales network in the southern region of the PRC in recent years and in order to achieve cost-efficiency, it has always been our strategy to select suppliers or subcontractors within the vicinity of our manufacturing facilities or customers’ operation sites. For components that can be delivered to the site for installation or assembly without going through the manufacturing process at our manufacturing facilities, we will request the relevant supplier or subcontractor to deliver the components to the site directly in order to cut down the unnecessary transportation cost. Subcontractor I is strategically located in the Jiangxi province and is able to deliver the requisite components to our customers located within the southern region at a lower cost due to his geographical advantage. In addition, we have maintained a good business relationship with the Individual Customer for four years and our Directors are of the view that it is mutually beneficial to engage Subcontractor I. The Individual Customer and Subcontractor I are

BUSINESS

Independent Third Parties. Revenue generated by this customer accounted for approximately 3.6%, 1.8% and 1.7% of our total revenue during the Track Record Period. The gross profit attributable to this customer accounted for approximately 4.0%, 1.9% and 1.7% of our gross profit during the Track Record Period.

Our five largest customers for each of the year ended 31 December 2012, 2013 and the nine months ended 30 September 2014 were based in Russia and the PRC. Our customer from Russia is a road construction company based in Saint-Petersburg and the other customers based in the PRC are mainly engaged in road construction and maintenance and relevant equipment trading and leasing business. One of the customers is engaged in the finance leasing business. We maintain good and stable relationships with our major customers and have generally cooperated with them for a period of up to 6 years.

Revenue generated from our five largest customers amounted to approximately RMB76.3 million, RMB87.5 million and RMB67.4 million, representing approximately 21.0%, 21.2% and 22.6% of our total revenue during the Track Record Period. Revenue generated from our largest customer amounted to approximately RMB17.6 million, RMB33.5 million and RMB20.2 million, representing approximately 4.8%, 8.1% and 6.8% of our total revenue during the Track Record Period. None of our Directors, their associates, or any Shareholders, who, to the knowledge of our Directors, owns more than 5% of our issued share capital (without taking into account any exercise of the [REDACTED]), had any interest in our five largest customers during the Track Record Period.

Direct Customers

Our direct customers are primarily engaged in road construction and maintenance work. These customers may contact us once they have successfully bid for a road construction or maintenance project or before they submit their bid for a road construction or maintenance project. Due to the nature of our business and the product life cycle of our products, which is usually 8 to 10 years or more, we do not enter into long term agreement with our direct customers. We typically enter into a legally binding sale and purchase contract with our direct customers on an order-by-order basis. We do not have standard payment terms and we usually negotiate the terms with our customers on a case by case basis. We may or may not request for deposits from our customers and we usually require our customers to pay us up to 50% of the contract sum prior to the delivery of our products to our customers. The remaining sum is usually being settled by way of instalments up to a period of 18 months after the date of delivery of our products. Some of our customers will retain 5% to 10% of the contract sum as retention money, which will be paid to us after deducting warranty claims, if any, upon the expiry of the warranty period. The warranty period is 12 months commencing from the date of acceptance of the goods or 15 months commencing from the date of delivery or shipment, whichever is earlier. As part of our strategies to promote our sales to overseas customers or customers with overseas projects, we offer a longer warranty period of 18 to 24 months to our overseas customers or customers with overseas projects.

Our domestic customers will settle payment in RMB and our overseas customers will settle payment in foreign currencies such as Euro and USD. The penalty for late payment for domestic customers is within the range of 0.5% to 1% of the contract value every two weeks in the first month and we have the right to refuse delivery, terminate usage of or reclaim our products in case of continuing breach. In certain cases, we are entitled to terminate the contract if no deposit is

BUSINESS

received within one month of the signing of the contract or after six months of non-payment. As for overseas customers, we are entitled to terminate the contract if a customer fails to pay the deposit within the agreed time, in which case, the contract will become void. We are entitled to forfeit the deposit if our customer fails to pay the remaining sum. The penalty for late delivery of goods is typically 0.5% of the value of the goods payable every two weeks and the total penalty shall not exceed 5% of the value of the goods. During the Track Record Period, we had not terminated any sales contract for our customers' failure to make payment to us and no penalty had been imposed on us for late delivery of goods.

Finance Leasing Companies

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

Pursuant to the tripartite sales contract, the end-users are required to pay a deposit in the range of 20% to 40% upon signing or within three to 40 days of signing of the tripartite sales contract and the finance leasing company is required to pay the remaining sum by way of bank transfer, telegraphic transfer and/or bank's acceptance notes within 5 to 30 days after the condition precedents to payment have been satisfied. Condition precedents include, proof of various payments and receipt of plant, document related to the plant, VAT invoice and financing facility in certain cases. We usually offer warranty period to the end-users for a period of 12 months commencing from the date of acceptance of goods or 15 months commencing from the date of delivery or shipment, whichever is earlier. The tripartite sales contract may be terminated under certain cases, for example, the payment or delivery obligation cannot be fulfilled within the agreed timeframe. We offer a guarantee under the tripartite sales contract or a separate repurchase contract to repurchase our products in case the end-users breach their obligation under the equipment leasing contract. The penalty for breach of the repurchase undertaking is a daily interest of 0.03% to 0.1% until the outstanding sum is fully paid. In addition, we entered into supplemental agreement and service agreement with one of the finance leasing companies. According to the supplemental agreement, we are required to pay a security deposit within a range of 3% to 10% of the total purchase price to the finance leasing company and it will be deducted or forfeited if the end-users defaulted in payment. Depending on terms of the service agreement, we may be required to pay a service charge of up to approximately 10.0% of the sales price to that finance leasing company.

During the Track Record Period, our sales to finance leasing companies amounted to approximately RMB12.3 million, RMB47.9 million and RMB32.2 million, respectively, accounting for approximately 3.8%, 13.6% and 12.7% of our revenue from the sales of asphalt mixing plants, respectively. As at 31 December 2012, 2013 and 30 September 2014, our maximum

BUSINESS

exposure guarantee obligations amounted to approximately RMB18.0 million, RMB25.7 million and RMB42.8 million, respectively. As at the Latest Practicable Date, we had not received any demand from these finance leasing companies to perform our guarantee obligations due to defaults by end-user. For details of our contingent liabilities under these guarantees, please refer to the section headed “Financial Information – Contingent liabilities” in this document.

Distributors

We appoint distributors to promote the sale of our products in areas where we have limited market coverage. We select our distributors based on a number of factors, including their financial strengths, their sales teams and capabilities and their client base. As at the Latest Practicable Date, we had a total of 15 distributors, 10 of which were in the PRC and 5 of which covering Russia, India, Poland and certain countries in Africa. All of our distributors are Independent Third Parties.

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

Framework Distributorship Agreement

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

The framework distributorship agreement will provide whether a distributor is granted an exclusive or non-exclusive right to distribute our products in a geographical region. We have appointed only one distributor in each region in which we have presence and there is no overlapping geographical coverage. As at the Latest Practicable Date, four out of the 10 distributors in the PRC and four out of the five distributors outside the PRC were granted exclusive distributorships in various designated areas.

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

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

BUSINESS

Distributors acting as Sales Agent

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

During the track record period, our sales of asphalt mixing plants to customers through distributors acting as our agents represented approximately 24.2%, 22.0% and 24.4% of our revenue from the sales of asphalt mixing plants, respectively.

Sale and Purchase Contract with Distributors

One of our distributors in the PRC, who is also one of our five largest customers during the Track Record Period, had bought our products for reselling purposes (“**Distributor A**”). Distributor A had purchased 7 units from us during the Track Record Period. The sale and purchase contracts we entered into with Distributor A contain similar terms as the sale and purchase contracts we entered into with our direct customers. Payment terms are negotiated on a case by case basis, deposit is between the range of 10% to 30% and in certain cases, no deposit is required. Payments of up to 80% to 90% are usually settled by way of instalments within a period of up to 24 months. Distributor A will typically retain 10% to 20% of the contract sum as retention money, which will be paid upon the expiring of the warranty period. During the Track Record Period, there was no product return from Distributor A and revenue from the sale of asphalt mixing plants to Distributor A amounted to approximately RMB16.2 million, RMB4.9 million and RMB19.3 million, respectively, accounting for approximately 5.0%, 1.4% and 7.6% of our revenue from the sales of asphalt mixing plants, respectively.

Delivery and assembling of asphalt mixing plant

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

After-sale services

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

BUSINESS

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

We had a relatively stable relationship with our distributors during the Track Record Period. During the Track Record Period, we did not engage new distributor and there were only two PRC distributors whose distribution agreements with us had not been renewed. The primary reason for the non-renewal of the distribution agreements with these two of our PRC distributors was that these distributors had failed to meet our performance targets. The other 15 distributors has remained our distributors since their first appointments as our distributors.

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

Credit Management

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

Before we accept orders from our customers, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer’s background and financial strengths, historical repayment records and current repayment ability to pay, taking into account the economic environment in which the customer operates. Trade receivables under credit sales arrangement are due in accordance with specific payment terms agreed with individual customer on a case by case basis subject to the fulfilment of conditions as stipulated in the respective sales contracts. If the customers request for more favourable credit terms than what we would offer under our established policies, depending on the terms that our customers request for, the sales personnel must seek approval from regional manager, sales director and/or our executive Director.

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

BUSINESS

Pricing policy

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

Products return and warranty

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

We usually offer our direct customers and end-users under finance leases warranty period for a period of 12 months commencing from the date of acceptance of goods or 15 months commencing from the date of delivery or shipment, whichever is earlier. In certain cases, usually in contracts with overseas customers or customers with overseas projects, we offer a longer warranty period of 18 to 24 months. During the Track Record Period, we had made provision for product warranty of approximately RMB1.0 million, RMB1.7 million and RMB0.9 million, respectively.

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

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

Operating lease of our products

During the Track Record Period, we entered into equipment leasing contracts with our customers for a period ranging from 4 months to 16 months depending on the length of the customers' projects. In certain cases, we require the leases to pay a deposit between the range of RMB300,000 to RMB1,000,000 which will be set off against the rental. The rental is calculated based on unit price per tonne of the asphalt mixtures produced and is normally within the range of RMB11 to RMB14 per tonne, and payment is settled on monthly basis. The production quantity of a project is usually between 100,000 to 300,000 tonnes. If the total production quantity is lower than the minimum quantity required by the contract, the rental will be charged based on the

BUSINESS

minimum production quantity agreed. On the contrary, if the production quantity exceeds the minimum quantity required, rental will be calculated based on the total quantity produced per unit price agreed. We are entitled to terminate the contract, retrieve the plant and claim damages upon default of the leasee. In most cases, the defaulting party is also obliged to pay damages equivalent to a sum of 10% of the total contract price as well as all transportation cost incurred. We are responsible for the operation and maintenance of the plants in most cases and penalty will be incurred if we are unable to repair the plant in case of breakdown within specific days as stipulated in the contract. The leasee is liable to pay a sum of RMB10,000 per day in the event of delay in handing over the equipment after the contract has expired or terminated. During the Track Record Period, we had not paid any penalty for failure to repair the plant.

Marketing

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

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

BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

The U.S., the E.U., Australia and the U.N. have economic sanctions targeting certain Sanctioned Countries. We had past product sales connected with certain of the Sanctioned Countries, namely Libya and Russia during the Track Record Period and we still carry out such business activities connected with these Sanctioned Countries. During the Track Record Period, we had (i) entered into a sale and purchase contract with a customer in Libya for one sale of which no revenue had yet to be recorded during the Track Record Period; and (ii) product and parts and components sales in Russia, directly to customers or indirectly through our distributors. The revenue from our sales of products and spare parts in Russia accounted for approximately 9.9%, 10.2% and 6.6% of our total revenue for the years ended 31 December 2012 and 2013 and 30 September 2014.

As advised by Minter Ellison and Norton Rose Fulbright LLP, our legal advisers as to international sanction laws, our historical sales into the Sanctioned Countries or the entering into of sale and purchase contracts with customers in the Sanctioned Countries during the Track Record Period do not implicate the applicability of the relevant sanction laws on our Group, our Directors or any person or entity, including the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors and we have not been notified that any sanction would be imposed on us.

BUSINESS

We do not expect any material increase in our revenue from product sales to the Sanctioned Countries upon Listing. We will continue to evaluate and monitor our existing and ongoing business in the Sanctioned Countries in order to control our exposure to sanction risks. In assessing whether to continue our existing and ongoing business and whether to embark on new business opportunities connected with the Sanctioned Countries, we would take into account: (i) whether the relevant business activities involve any industries or sectors that are subject to any applicable sanctions; (ii) whether the counterparties to the relevant transactions have become subject to any economic sanctions; (iii) the size and value of the business activities as a percentage of our total revenue; and (iv) the potential risk to us of continuing such activities.

Our undertakings and internal control procedures

We have undertaken to the Stock Exchange:

- (i) that we will not use the proceeds from the [REDACTED], or any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with any Sanctioned Country which are prohibited under international sanction laws and regulations or with any Sanctioned Person;
- (ii) that we have no present intention to undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors to violate or become a target of sanctions laws of the European Union, the United Nations, the United States or Australia;
- (iii) to disclose on the respective websites of the Stock Exchange and our Company if we believe that the transactions our Group entered into in relation to a Sanctioned Country would put us or our Shareholders and investors at risk of being sanctioned; and;
- (iv) to disclose in our annual reports or interim reports our efforts in monitoring our business exposure to sanctions risk, the status of future business, if any, in the Sanctioned Countries and our business intention relating to the Sanctioned Countries. If we were in breach of such undertakings to the Stock Exchange, we risk the possible delisting of our Shares on the Stock Exchange.

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

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

BUSINESS

- We will evaluate the relevant sanction risks prior to determining whether we should embark on any business opportunity. According to our internal control procedures, the internal control committee needs to review and approve all relevant business transaction documentation connected with Sanctioned Countries and/or Sanctioned Persons. In particular, the internal control committee will review the information (such as identity, nature of business, etc.) relating to the counterparty to the contract along with the draft business transaction documentation. The internal control committee will check the counterparty against the various lists of restricted parties and countries maintained by the E.U., the U.N., the U.S. or Australia and determine whether the counterparty is, or is owned or controlled by, a person located in a Sanctioned Country or a Sanctioned Person. If any potential sanction risk is identified, we will seek advice from a reputable external international legal counsel with the necessary expertise and experience in international sanction law matters.
- In order to ensure our compliance with these undertakings to the Stock Exchange, the internal control committee will continuously monitor the use of proceeds from the [REDACTED], as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Sanctioned Country which are prohibited under international sanction laws and regulations or any Sanctioned Person.
- Our internal control committee will periodically review our internal control policies and procedures with respect to sanction law matters and report to our Board thereon. As and when the internal control committee considers necessary, we will retain an external international legal counsel with the necessary expertise and experience in sanctions law matters for recommendations and advice.
- If necessary, an external international legal counsel will provide training programs relating to the sanction laws to our Directors, our senior management, our legal and compliance department and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations.

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

BUSINESS

RESEARCH AND DEVELOPMENT

We recognise the importance of our research and development capabilities to our business. To maintain our position as one of the leading manufacturers of asphalt mixing plants in the PRC, it is important to maintain our strong research and development capabilities. Our technology research and development center is a dedicated department that carries out research and keeps us up-to-date with the trends of the international industry, and develops state-of-the-art technology. We strive to ensure that our asphalt mixing plants comply with international standards and achieve good performance-price ratio. Our research and development team is led by Mr. Zhao Xiongzhi, a member of our senior management. As at the Latest Practicable Date, our research and development team consisted of 70 staff, 41 of which are qualified engineers with experience in machinery design and manufacturing, and have worked for our Group for an average 6 years. The majority of our qualified engineers has at least 9 years of experience in the industry.

For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, our research and development expenditures amounted to approximately RMB13.4 million, RMB13.9 million and RMB11.4 million, respectively, among which research and development expenses were approximately RMB13.4 million, RMB13.9 million and RMB5.8 million, respectively. None of our research and development expenditures in 2012 and 2013 were capitalised. For the nine months ended 30 September 2014, the capitalised research and development expenditures was recorded as inventory and in the amount of approximately RMB5.6 million.

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

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

BUSINESS

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

As at the Latest Practicable Date, we had also developed and owned (i) 29 registered patents in the PRC, of which 3 were invention patents and 26 were utility model patents; (ii) 5 patents pending registration in the PRC, of which 2 were invention patents, 3 were utility model patents; and (iii) 22 software copyrights in the PRC. In addition, Beijing D&G is in the midst of transferring 7 registered utility model patents to us. For details of these intellectual property rights, please refer to paragraph headed “Appendix IV – Statutory and General Information – Intellectual property rights of our Group” in this document.

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

	<u>Name of research institute</u>	<u>Areas of research</u>	<u>Term</u>	<u>Rights to the research results</u>
1.	Research Institute of Highway, Ministry of Transport* (交通運輸部公路科學研究所) ⁽¹⁾	<ul style="list-style-type: none"> – Improvement or upgrade of Recycling Plants^(a) – Training and technical service in relation to the RAP recycling technology^(a) – Research on performance of asphalt mixtures with higher percentage of RAP produced through hot mix asphalt mixing process^(a) – Research on hot mix recycling technology on RAP produced by road maintenance on styrene-butadiene-styrene block copolymer (丁苯熱塑橡膠) asphalt road pavements^(a) – research on warm-mix asphalt foaming mixing technology^(b) 	<ul style="list-style-type: none"> (a) From January 2012 to 30 December 2017 (b) From 1 January 2015 to 31 December 2017 	We have joint rights to the intellectual property rights or proprietary technology arising from the research results and we may use the research results in our products free of charge.

BUSINESS

	Name of research institute	Areas of research	Term	Rights to the research results
2.	The Institute of Tsinghua University, Hebei* (河北清華發展研究院) ⁽²⁾	– Improvement on the design and development of new technology of the aggregates drying system of asphalt mixing plants	From 4 January 2013 to 31 December 2015	We have joint rights to the intellectual property rights or proprietary technology arising from the research results.
3.	The Hong Kong University of Science and Technology R and D Corporation Limited ⁽³⁾	– Developments of thermal insulation panel for asphalt mixing plants	No specific term but the first stage of the research has been completed. We have yet to decide if we were to carry out second stage research.	We have sole and exclusive rights to the intellectual property rights of the deliverables as well as sample obtained in the research services funded by us.

Notes:

- The Research Institute of Highway, Ministry of Transport* (交通運輸部公路科學研究所) is set up by the Ministry of Transport of the PRC to undergo research in areas including roadwork projects, bridge projects.
- Institute of Tsinghua University, Hebei* (河北清華發展研究院) was established on 12 August 2002 jointly by the Hebei province government and Tsinghua University. It is under the direct management of the Hebei Development and Reform Commission.
- The Hong Kong University of Science and Technology R and D Corporation Limited (“**HKUST R and D Corporation Limited**”) is the business arm of the Hong Kong University of Science and Technology. It participates in research programs in areas including nano-science, biological science, electronics, wireless and information technology, environment and sustainable development as well as management education and research.

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

BUSINESS

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

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

In April 2014, we have gone through the expert verification stage for the establishment of the “Hebei Asphalt Pavement Intelligent Equipment Technology Research Centre* (河北省瀝青路面智能裝備工程技術研究中心)” (“**Research Centre**”) jointly with The Research Institute of Highway, the Ministry of Transport* (交通運輸部公路科學研究所) and the Institute of Tsinghua University, Hebei* (河北清華發展研究院) and the Research Centre was recommended to be included in the Hebei Provincial engineering technical research centre establishment plan in May 2014. In July 2014, we entered into a proposal regarding the project on the establishment of the “Hebei Asphalt Pavement Intelligent Equipment Technology Research Centre* (河北省瀝青路面智能裝備工程技術研究中心)” (“**Research Centre**”) jointly with The Research Institute of Highway, the Ministry of Transport* (交通運輸部公路科學研究所) and the Institute of Tsinghua University, Hebei* (河北清華發展研究院). Pursuant to such proposal, the establishment phase of the Research Centre began in May 2014 and is expected to be completed by November 2015. During the establishment phase, the Research Centre conducts research in a number of areas, including new Recycling Plants, RAP recycling and warm mix process, new mixing plants with recycling and environment friendly features such as warm mix foaming components and new multifunctional mixing plants such as plants with self-diagnostic software on problems of the automated control system of asphalt mixing plants and long distance network video service system. We expect to incur approximately RMB19.6 million for the research and operation of the Research Centre at the establishment phase.

As recognition of our research and development capabilities, we have won a number of awards in the PRC. For details of our awards, see “– Awards and Honours”. Furthermore, our subsidiary, Langfang D&G, has been accredited as high-technology enterprise jointly by the Hebei Provincial Department of Science and Technology, Hebei Provincial Department of Finance, Hebei Provincial Office of State Administration of Taxation and Hebei Local Taxation Bureau for a period of three years from 2011 to 2013. We are in the process of renewing the high-technology enterprise qualification of Langfang D&G from 2014 to 2016. As advised by our PRC legal

BUSINESS

adviser, there are no legal impediments for Langfang D&G to renew its high-technology enterprise qualification. As such, we expect that Langfang D&G will be able to renew its High-Technology Enterprise qualification.

QUALITY CONTROL

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

We assess our suppliers and subcontractors in accordance with specified criteria on pricing, quality of raw materials, parts and components and quality of service. Before entering into business relationship with any new supplier or subcontractor, we usually assess the background and performance of the supplier or subcontractor to assess its suitability. Suppliers and subcontractors are chosen based on their ability to provide timely delivery of good quality products in the required quantities at reasonable prices and also their ability to provide good services. Our quality control department monitors the quality of the raw materials, parts and components supplied by our suppliers and subcontractors. We entered into a quality assurance agreement with our subcontractors who supply structural components to us, pursuant to which subcontractors are required to manufacture parts and components which comply with our quality specifications and to produce certificate in relation to the quality of materials supplied used upon request. We are entitled to conduct onsite inspection of the quality of the parts and components if necessary. We randomly inspect parts and components supplied by our subcontractors from time to time. Any parts and components that fail to meet our requirements will be returned to the relevant supplies or subcontractors.

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

BUSINESS

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

As at the Latest Practicable Date, we had 11 employees on our quality control team and the team is led by Mr. Zhao Xiong Zhi, one of the members of our senior management. For details of Mr. Zhao’s qualification and relevant experience, please refer to the section headed “Directors, Senior Management and Staff” in this document. Some of our quality control personnel are qualified technician and some have obtained qualification for the quality professional. In addition, approximately 20 of our employees from different departments have completed internal auditor training relating to ISO9001:2008 Quality Management System certification, ISO14001:2004 Environmental Management System certification and the OHSAS18001: 2007 Occupational Safety and Health Management System.

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

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

COMPETITION

According to the CCID Report, the asphalt mixing plants in the PRC can be broadly divided into the small scale asphalt mixing plants and medium to large scale asphalt mixing plants based on the type of road construction or maintenance projects in which the plants are used and the level of technical capabilities required to manufacture the plants. During the Track Record Period, we generated the majority of our revenue from the sale of medium to large scale asphalt mixing plants and such revenue accounted for approximately 84.0%, 85.1% and 90.9%, of our revenue from the sale of asphalt mixing plants, respectively. We also generated some revenue from the sale of small scale asphalt mixing plants during the Track Record Period and such revenue accounted for approximately 16.0%, 14.9% and 9.1%, of our revenue from the sale of asphalt mixing plants respectively. During the Track Record Period, most of our small scale asphalt mixing plants were sold via direct or indirect export sales.

We face competition from domestic and international asphalt mixing plant manufacturers in the 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 plant manufacturers, including us. According to the CCID Report, the medium to large scale asphalt mixing plants manufactured in the PRC and sold by the top five asphalt mixing plant manufacturers accounted for approximately 60.3% of the total medium to large scale asphalt mixing plants

BUSINESS

manufactured in the PRC and sold in 2013. Some of our competitors in this market are PRC state-owned companies and multinational companies. According to the CCID Report, based on the sales volume of medium to large scale asphalt mixing plants manufactured in the PRC in 2013, we ranked second with market share of approximately 13.8%.

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

In the small scale asphalt mixing plant market, we also face intense competition mainly from domestic asphalt mixing plant manufacturers. In addition to the customers' sophistication and familiarity with asphalt mixing plant manufacturers and their products, there is a larger number of manufacturers which are capable of manufacturing small scale asphalt mixing plants on a mass production scale. According to the CCID Report, there were about 40 asphalt mixing plant manufacturers in 2013 that were capable of manufacturing 2000 model series or below to 4000 model series asphalt mixing plants on a mass production scale. According to the range of market prices of small scale asphalt mixing plants shown in the CCID Report, the average selling prices of our small scale asphalt mixing plants during the Track Record Period was at the high end of the range. There is intense price competition in this market because of the relatively low technical barriers to entry to this market. As such, we compete against other manufacturers in this market based on the technical capabilities to manufacturing such plants, reliability of the plants as well as comprehensive services.

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

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

BUSINESS

EMPLOYEES

As of the Latest Practicable Date, we had a total of 410 full time employees and 12 retired employees, of whom 413 are located in the PRC, 9 are located in Hong Kong. The following table sets out a breakdown of our employees by division as at the Latest Practicable Date:

Division	Number of employees
Management	5
Production	133
Sales and Marketing	87
Procurement and Inventory	57
Administration	31
Research and Development	70
Quality Control	11
Finance and Accounting	15
Human Resources Management	4
Legal and Compliance	9
Total	<u>422</u>

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

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

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

BUSINESS

In accordance with the relevant requirements of the local government in the PRC where we operate, we make contribution to pension and purchase injury insurance, medical insurance, unemployment insurance, maternity insurance for our full time employees. The amount of our contributions is based on the specified percentages of our employees’ aggregate salaries as required under PRC laws and regulations. In addition, we make contributions to the employee housing fund according to applicable PRC regulations. Please refer to the paragraphs headed “Legal Proceedings and Compliance – Non-compliance” under this section for further details. In Hong Kong, we participate in a mandatory provident fund scheme established under the Mandatory Provident Fund Schemes Ordinance.

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

INTELLECTUAL PROPERTY

We protect our intellectual property through trademarks, patents, software copyrights and contractual rights. We submit patent applications for products and technologies that we have developed from time to time in order to proactively protect our intellectual property rights. As at the Latest Practicable Date, we had (i) 17 registered trademarks; (ii) 2 trademarks pending application; (iii) 29 registered patents, of which 3 were invention patents and 26 were utility model patents; (iv) 5 patents pending registration, of which 2 were invention patents and 3 were utility model patents; and (v) 22 software copyrights.

We also entered into two intellectual property transfer contracts on 2 January 2015 with Beijing D&G to transfer 7 registered utility model patents and 12 software copyrights to us. As at the Latest Practicable Date, we are in the process of registering the transfers of the said intellectual properties with the PRC State Intellectual Property Office and the National Copyrights Administration.

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

BUSINESS

AWARDS AND HONOURS

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

<u>Year</u>	<u>Major Award/ Authentication/ Recognition</u>	<u>Awarding Authority</u>
2009	PRC Construction Machinery Industry (60 years) Well-known Trademark Award (中國築路機械六十年行業著名品牌獎)	China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會)
	PRC Construction Machinery Industry (60 years) Technological Innovation Award (中國築路機械六十年行業技術創新獎)	China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會)
	PRC Construction Machinery Industry (60 years) Industry Development Contribution Award” (中國築路機械六十年行業行業發展貢獻獎)	China Construction Machinery Association Road Machine Chapter (中國工程機械工業協會築路機械分會)
2011-2014	PRC Top 50 Construction Machinery Manufacturers (中國(本土)工程機械製造商50強)	China Construction Machinery Association (中國工程機械工業協會)
	High technology Enterprise Certificate (高新技術企業證書)	Hebei Provincial Department of Science and Technology, Hebei Provincial Department of Finance, Hebei Provincial Office of State Administration of Taxation and Hebei Local Taxation Bureau (河北省科學技術廳、河北省財政廳、河北省國家稅務局及河北省地方稅務局)
2012	Outstanding Contribution Member” (突出貢獻理事單位)	China Highway Construction Machine Branch (中國公路學會築路機械分會)

BUSINESS

Year	Major Award/ Authentication/ Recognition	Awarding Authority
2012-2014	National Advanced Applicable Mechanical And Electrical Products (4000 and 5000 model series, and Recycling Plants) (全國先進適用機電產品)	China Association of Plant Engineering (中國設備管理協會)
	National Advanced Enterprise in After-sales Service Award (全國售後服務先進單位)	PRC General Chamber of Commerce (中國商業聯合會) PRC Foundation of Consumer Protection (中國保護消費者基金會) PRC Evaluation Committee of After-sales Service (全國商品售後服務評價委員會)
	Hebei First Industrial Design Award – Golden Prize (首屆河北省工業設計獎金獎)	Industry and Information Technology Department of Hebei Province (河北省工業和信息化廳) and the Awards Committee of the Hebei Industrial Design Award (河北省工業設計獎評獎工作委員會)

LICENCES, PERMITS AND APPROVALS

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

PROPERTIES

Self-owned properties

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

Leased properties

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

BUSINESS

Land

Self-owned Land

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

Leased land

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

PROPERTY VALUATION

As at 30 September 2014, we had no single property with a carrying amount of 15% or more of our total assets. Accordingly, this document is exempt from the requirements under the Listing rules and the Company Ordinance to include a property valuation report. Pursuant to Rule 5.01A of the Listing Rules, a prospectus is exempt from the requirement if the carrying amounts of a listing applicant’s property activities and non-property activities are below 1.0% and 15.0%, respectively. A similar exemption applies under Section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect to the requirement under section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

ENVIRONMENTAL MATTERS

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

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

Furthermore, we are required to conduct an environmental impact assessment, obtain approval of the assessment before commencing of construction projects, such as projects in relation to the construction of asphalt mixing plants and manufacturing facilities, complete an examination and obtain an environmental acceptance approval before commencing production. We

BUSINESS

have adopted environmental protection manuals to govern environmental related matters of our Group, including standard procedures and regulations for waste management, noise, sewage discharge, energy saving, emission as well as general environmental monitoring and control. We also have two environmental officers overseeing the implementation and compliance of the environmental protection manuals.

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

For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, we incurred environmental protection costs of approximately RMB0.2 million, RMB0.3 million and RMB0.1 million, respectively. Our environmental protection cost for the year ending 31 December 2015 is expected to be approximately RMB0.3 million.

HEALTH AND SAFETY

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

For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, there were only 7, 7 and 4 minor work injury incidents, respectively. During the Track Record Period, there had not been any claim or compensation paid to our employees due to such incidents. There was no accident causing death or serious bodily injury in our business operations during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

INSURANCE

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

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

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

LEGAL PROCEEDINGS AND COMPLIANCE

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

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

Non-compliance

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

BUSINESS

Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure on-going compliance
Social insurance and housing provident funds				
<p>We did not fully pay and make sufficient contributions to the required standard in respect of the social insurance and the housing provident fund for some of our employees.</p>	<p>Our human resource manager at the relevant time was not familiar with the relevant regulatory requirements.</p>	<p>Under the Social Insurance Law of the PRC* (《中華人民共和國社會保險法》), as a result of not making full contribution to the social insurance, the competent authority shall order the employing entity to make the payment or make up the difference within the stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department shall impose a fine from one to three times the amount of overdue payment.</p>	<p>We have commenced to make social insurance and housing provident fund contributions for all of our employees in accordance with the required standards since January 2015. Up to the Latest Practicable Date, (i) we have not received any request for making up the estimated outstanding contribution nor we have been imposed any punishment as a result of such non-payment; (ii) the authorities in charge of the social insurance and the housing fund have confirmed that currently we did not fail to pay the social insurance and the housing provident fund.</p>	<p>To ensure on-going compliance on social insurance and housing provident fund contributions, dedicated human resource personnel has been assigned to prepare the monthly payroll which consists of the calculation for social insurance and housing provident fund contributions. The human resource manager shall review the payroll on a monthly basis and submit to the finance manager for checking. The payroll will then be submitted to the general manager for approval. We will regularly review our list of employees who are eligible for social insurance and housing provident fund contributions, and submit the list to the management for approval. We will make social insurance and housing provident fund contributions for all the employees on the list in accordance to the applicable laws and regulations. We will also keep track of the applicable laws and regulations in respect of the social insurance and the housing provident fund amended from time to time in order to make corresponding adjustment to our contribution.</p>
<p>Under the Regulations on the Management of Housing Provident Funds* (《住房公積金管理條例》) of the PRC, as a result of not making full contribution to the housing provident fund, the housing provident fund management center shall order the employing entity to make the payment and deposit within a prescribed time limit; failing which, at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed or an application may be made to a People's Court for compulsory enforcement.</p>	<p>Under the Regulations on the Management of Housing Provident Funds* (《住房公積金管理條例》) of the PRC, as a result of not making full contribution to the housing provident fund, the housing provident fund management center shall order the employing entity to make the payment and deposit within a prescribed time limit; failing which, at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed or an application may be made to a People's Court for compulsory enforcement.</p>	<p>Under the Regulations on the Management of Housing Provident Funds* (《住房公積金管理條例》) of the PRC, as a result of not making full contribution to the housing provident fund, the housing provident fund management center shall order the employing entity to make the payment and deposit within a prescribed time limit; failing which, at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed or an application may be made to a People's Court for compulsory enforcement.</p>	<p>We have already made provisions in respect of the unpaid social insurance and housing provident fund in the aggregate amount of approximately RMB990,000, RMB1,373,000 and RMB1,537,000, respectively, for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014. We believe such amount is sufficient to cover our liabilities in respect of the unpaid housing provident fund and social insurance contributions. In addition, each of our Controlling Shareholders has undertaken to indemnify us against any losses and penalties which we may suffer as a result of the failure of our Group to observe relevant laws, regulations or rules concerning social insurance and housing provident fund contributions.</p>	<p>We have already made provisions in respect of the unpaid social insurance and housing provident fund in the aggregate amount of approximately RMB990,000, RMB1,373,000 and RMB1,537,000, respectively, for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014. We believe such amount is sufficient to cover our liabilities in respect of the unpaid housing provident fund and social insurance contributions. In addition, each of our Controlling Shareholders has undertaken to indemnify us against any losses and penalties which we may suffer as a result of the failure of our Group to observe relevant laws, regulations or rules concerning social insurance and housing provident fund contributions.</p>
<p>Further, as the relevant local authorities have already confirmed that none of our Group companies in the PRC have any outstanding contributions in respect of the social insurance and the housing provident fund, our PRC Legal Adviser has advised that the risks that the relevant authorities would request us to make supplementary payment and impose administrative fines on us are relatively low.</p>	<p>Further, as the relevant local authorities have already confirmed that none of our Group companies in the PRC have any outstanding contributions in respect of the social insurance and the housing provident fund, our PRC Legal Adviser has advised that the risks that the relevant authorities would request us to make supplementary payment and impose administrative fines on us are relatively low.</p>	<p>Further, as the relevant local authorities have already confirmed that none of our Group companies in the PRC have any outstanding contributions in respect of the social insurance and the housing provident fund, our PRC Legal Adviser has advised that the risks that the relevant authorities would request us to make supplementary payment and impose administrative fines on us are relatively low.</p>	<p>Further, as the relevant local authorities have already confirmed that none of our Group companies in the PRC have any outstanding contributions in respect of the social insurance and the housing provident fund, our PRC Legal Adviser has advised that the risks that the relevant authorities would request us to make supplementary payment and impose administrative fines on us are relatively low.</p>	<p>Further, as the relevant local authorities have already confirmed that none of our Group companies in the PRC have any outstanding contributions in respect of the social insurance and the housing provident fund, our PRC Legal Adviser has advised that the risks that the relevant authorities would request us to make supplementary payment and impose administrative fines on us are relatively low.</p>

BUSINESS

INTERNAL CONTROL AND CORPORATE GOVERNANCE MEASURES

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

- (i) our Directors and senior management attended training sessions on applicable laws and regulations, including the Listing Rules, provided by our legal adviser prior to Listing. We will continue to arrange various trainings to be provided by the legal adviser engaged by us from time to time and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations;
- (ii) we have appointed Mr. To Kwong Yeung as our chief financial officer in January 2015 who will be responsible for financial, internal control and compliance matters of our Group. Mr. To has over 14 years of experience in business management, auditing, accounting and internal control. Mr. To is a member of the Hong Kong Institute of Certified Public Accountants. Our Directors believe that our Company will be able to draw on his expertise and experience with respect to compliance with applicable legal and financial reporting requirements. Please see the section headed “Directors, senior management and staff” of this document for more detailed biographical information of Mr. To;
- (iii) we have established an internal control committee. The members of such committee comprise the chief financial officer from time to time of our Group (currently Mr. To Kwong Yeung), the assistant to the chief executive officer from time to time of our Group (currently Ms. Ng Po Fung) and their responsibilities include, among others, monitoring and implementation of the internal control and compliance matters of our Group and reporting to our Board;
- (iv) Our Group has also formed an audit committee comprising four independent non-executive Directors as part of our measures to improve corporate governance. The primary duties of the audit committees are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors. We plan to continue strengthening our risk management policies, by ensuring regular management review of relevant corporate governance measures and the implementation by each subsidiary and the corresponding departments;
- (v) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser with effect from the date of Listing.

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

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED], BVI-Prima DG, which is wholly-owned by the Choi Family Founders will be beneficially interested in approximately [REDACTED] of the Shares in issue (assuming that the [REDACTED] is not exercised and without taking into account Shares that may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme). Accordingly, BVI-Prima DG and the Choi Family Founders will be our Controlling Shareholders within the meaning of the Listing Rules. Each of BVI-Prima DG and the Choi Family Founders has confirmed that he/she/it does not hold or conduct any business (except for our Group’s business) which competes, or is likely to compete, either directly or indirectly, with our business.

NON-COMPETITION UNDERTAKINGS

In order to ensure that our Controlling Shareholders will not engage in any business undertaking in competition with our Group, each of BVI-Prima DG and the Choi Family Founders (“**Covenantors**”) has given an irrevocable non-competition undertaking in favour of our Company (for itself and as trustee for its subsidiaries from time to time) pursuant to which, each of the Covenantors has irrevocably, unconditionally and severally undertaken with our Company on a joint and several basis that, among others, at any time during the Relevant Period (as defined below), each Covenantor shall:

- (i) save for the Restricted Business (as defined below), not, and shall procure that none of his/her/its close associates (other than the Group) shall, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business engaged by our Group from time to time (“**Restricted Business**”), including but not limited to the manufacturing and sale of asphalt mixing plants, provision of equipment modification services and sale of machinery components and parts, and leasing of our asphalt mixing plants by way of operating lease;
- (ii) promptly provide our Company with any relevant information in respect of any new business opportunity within and/or outside the PRC which competes or may compete with the Restricted Business or future business of our Group of which he/she/it or his/her/its close associates may have knowledge and will give our Company an option, exercisable by our Company within 30 days upon receipt of the written notification of relevant information to take up such new business opportunity and he/she/it and/or his/her/its close associates may only take up such new business opportunity after the independent non-executive Directors have separately reviewed and decided that our Group should decline such new business opportunity after having considered (a) the financial resources of our Group and that required for the new business opportunity, (b) whether such new business opportunity would compete with our prevailing business; (c) the viability of and risks involved in such new business opportunity; and (d) whether it is in the interest of our Company and our Shareholders as a whole to pursue the new business opportunity.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

For the above purposes, the “**Relevant Period**” means the period commencing from the Listing Date and shall expire upon the earliest of the dates below:

- (i) the date on which the relevant Covenantor ceases to be our controlling shareholder for the purpose of the Listing Rules; or
- (ii) the date on which the Shares cease to be listed on the Stock Exchange.

Notwithstanding the aforesaid, the non-competition undertaking as set out above shall not prevent the Covenantors and their respective close associates from acquiring a direct or indirect shareholding interest of not more than 5% in a company listed on any stock exchange anywhere in the world and engaged in any Restricted Business.

Each of our Controlling Shareholders confirm that they are neither engaged, nor interested, in any business (except for our Group’s business) which, directly or indirectly, competes or may compete with our Group’s business and would require disclosure under Rule 8.10 of the Listing Rules. Our Directors confirm that none of them is interested in any business (except for our Group’s business) which competes or is likely to compete, either directly or indirectly with our business.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from our controlling shareholders and to safeguard the interests of our Shareholders:

- (i) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (ii) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking by the Covenantors under the non-competition undertaking set out in the paragraph headed “Non-competition undertakings” in this section;
- (iii) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser with effect from the date of Listing;
- (iv) the Covenantors undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the non-competition undertaking set out in the paragraph headed “Non-competition undertakings” in this section;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (v) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the undertaking of the Covenantors under the non-competition undertaking set out in the paragraph headed “Non-competition undertakings” in this section, in the annual reports of our Company;
- (vi) if our independent non-executive Directors consider it necessary or desirable, they may also engage professional advisors (including an independent financial advisor) at the costs of our Company to advise them on matters relating to the non-competition agreement or on any business opportunities which may be referred to us by our Controlling Shareholders; and
- (vii) the Covenantors will make an annual declaration in compliance with their undertaking under the non-competition undertaking in the annual report of our Company.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Apart from our Group’s business, our Controlling Shareholders also have interests in or participate in the operation of other businesses, including but not limited to beverages, resort hotels and infrastructural, renewable energy and agricultural projects. Our Directors consider that our Group is capable of carrying on its business independent of, and does not place undue reliance on, our Controlling Shareholders and their close associates for the following reasons:

Management independence

Our Board comprises six executive Directors, one non-executive Director and four independent non-executive Directors. Although three of our Directors, Mr. Choi, Mr. Derek Choi and Ms. Glendy Choi, are also our Controlling Shareholders, all of our other Directors and senior management possess relevant management and/or industry-related experience to act as Directors or senior management of our Company and to make management decisions independent from our Controlling Shareholders. Please refer to the section headed “Directors, Senior Management and Staff” in this document for details.

In addition, each of our Directors is aware of his/her fiduciary duties as a Director of our Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Group and does not allow any conflict between his/her duties as a Director and his/her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have a senior management team to make business decisions independently. Our independent non-executive Directors will also bring independent judgment to the decision-making process of our Board.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Based on the above, our Directors are of the view that our Board, as a whole, together with our senior management team, are capable of managing our business independently from our Controlling Shareholders.

Operational independence

Our Directors consider that our operations do not depend on our Controlling Shareholders for the following reasons:

- (a) we have independent access to sources of supplies or raw materials, parts and components for the production of our products and also independent access to our customers;
- (b) we have also established a set of internal controls to facilitate the effective operation of our business and an internal control committee to oversee the implementation of our internal control system;
- (c) we have our own registered patents and computer software copyrights which we can use for producing our products and providing our services. We have also registered trademarks which we can use for marketing our products and services;
- (d) there is no competing business between our Group and our Controlling Shareholders; and
- (e) except for the lease of office premises in Hong Kong and the PRC as described in the section headed “Connected Transactions” in this document, all of which our Directors consider can be replaced if necessary within a short period of time without incurring significant costs, there is no connected transaction between our Controlling Shareholders or their associates and any member of our Group.

Based on the above, our Directors are of the view that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. We have our own internal control and accounting systems and accounting and finance department to perform independent treasury function on cash receipts and payments, independent accounting and reporting functions and independent internal control function. We are able to obtain financing from third parties or from our internally generated funds without reliance on our Controlling Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

During the Track Record Period, there were a number of financial arrangements between our Group and our Controlling Shareholders and their associates (namely loans and guarantees given to/by our Group from/to our Controlling Shareholders and their associates). Details of these financial arrangements are summarised below:

	As at 31 December 2012	As at 31 December 2013	As at 30 September 2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts of loans due to us from our Controlling Shareholders and their associates	6,387	6,076	–
Amounts due from us to our Controlling Shareholders and their associates (including loans and rental)	798	4,429	4,350
Amounts guaranteed by our Controlling Shareholders and their associates for our Group	–	–	31,582
Amounts guaranteed by our Group for our Controlling Shareholders and their associates	–	21,227	49,135

In addition, to facilitate our Reorganisation, BVI-Prima DG, our Controlling Shareholder, advanced the Prima DG Shareholder’s Loan, the HK\$1.4M Loan and the Diamond Strong Loan to our Company. All such loans shall be capitalised prior to Listing as part of the Reorganisation. For details of these loans, please refer to the paragraph 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” in this document.

All of the aforementioned financial arrangements will be repaid/released prior to Listing.

In connection with the issue of the Exchangeable Bond and the advancement of the Regal Sky Loan, our Company provided a share charge in favour of Regal Sky. Rich Benefit will also grant a share charge in favour of Regal Sky. For details of these share charges, please refer to the paragraph headed “History Reorganisation and Corporate Structure – [REDACTED] Investments – Security” in this document. All of these share charges will be released upon Listing.

Save as disclosed above, our Controlling Shareholders have not entered into any financial arrangements with our Group during the Track Record Period.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

As at 30 September 2014, our Group’s outstanding bank borrowings were approximately RMB52.2 million, of which approximately RMB31.6 million were guaranteed by Mr. Derek Choi and Ms. Tin in favour of HSBC Bank (China) Company Limited. We have obtained consent in principle from HSBC Bank (China) Company Limited that such guarantees will be released prior to Listing.

Based on the aforementioned, our Directors are of the view that we are financially independent of our Controlling Shareholders.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Exempt continuing connected transactions under 14A.76(1) of the Listing Rules

Following the Listing, we will continue to have certain continuing connected transactions (collectively, the “**Transactions**”) which will, on an aggregate basis, constitute exempt continuing connected transactions under Rule 14A.76(1) of the Listing Rules. Details of the Transactions are as follows:

Lease Agreements

We, as tenants, have entered into the following lease agreements, which will continue after the Listing:

Tenant	Lease in Hong Kong (“Hong Kong Lease”)		Leases in the PRC (“PRC Leases”)	
	BW Enterprise		Langfang D&G	
Landlord	Diamond Strong	Beijing Weilifei	Diamond Strong	Mr. Choi
Location of property	7th Floor, Hing Lung Commercial Building, 68-74 Bonham Strand, Hong Kong	Half of 2nd floor and half of 4th floor, Complex Building, No.20 Wansheng South Street, Tongzhou District, Beijing City, PRC	Flat B, Room 2302, No.114 Sports East Road, Tianhe District, Guangzhou City, PRC	Room 1003, No.710 Dongfang Road, Shanghai City, PRC
Size of property	2,080 square feet (gross floor area “GFA”)	479.5 sq.m. (GFA)	100 sq.m. (usable floor area)	102.39 sq.m. (GFA)
Term	1 January 2015 – 31 December 2017	1 July 2014 – 30 June 2016	1 January 2015 – 31 December 2017	1 January 2015 – 31 December 2017
Annual rent payable	HK\$549,120 ^{Note 1}	RMB95,900 ^{Note 3}	RMB174,000 ^{Note 2}	RMB202,728 ^{Note 2}
Use of property	Our office in Hong Kong	Our office in Beijing	Our office in Guangzhou	Our office in Shanghai

Notes:

1. The rent is exclusive of government rent, rates, management fee, utilities and other service charges exclusive of all other charges.
2. The rent is exclusive of all other charges.
3. The rent is inclusive of management fee payable to the landlord.

CONNECTED TRANSACTIONS

Beijing Weilifei is indirectly held, while Diamond Strong is directly held, by the Choi Family Founders as to 40%, 20%, 20% and 20%, respectively. Accordingly, each of Beijing Weilifei, Diamond Strong and Mr. Choi is a connected person of our Company for the purposes of the Listing Rules.

Our Directors, after reviewing the tenancy agreements to the Hong Kong Lease and the PRC Leases (the “**Lease Agreements**”), have confirmed that the terms under the Lease Agreements are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and the Lease Agreements have been entered into in our Group’s ordinary and usual course of business, on an arm’s length basis with reference to prevailing market rates and upon normal commercial terms.

Since, on an aggregate basis, each of the applicable ratios calculated with reference to Rule 14.07 of the Listing Rules is expected to be less than 5% and the aggregate annual consideration is less than HK\$3,000,000, the Transactions will constitute exempt continuing connected transactions of our Company under Rule 14A.76(1) of the Listing Rules. Accordingly, the Transactions will be exempt from the reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules upon Listing.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Our Board consists of six executive Directors, one non-executive Director and four independent non-executive Directors. The functions and duties of our Board include convening shareholders’ meetings, reporting on our Board’s work at these meetings, implementing the resolutions passed on these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions and for the increase or reduction of registered capital. In addition, our Board is responsible for exercising other powers, functions and duties in accordance with the Articles.

The following table sets forth certain information with respect to our Directors:

Name	Age	Position in our Group	Date of first joining our Group	Date of appointment as a Director	Main roles and responsibilities
Mr. Choi Hung Nang (蔡鴻能) ^{Note (1)}	75	Executive Director and Chairman	Co-founder	11 September 2014	Supervising the operations of our Group, planning our business and marketing strategies
Ms. Choi Kwan Li, Glendy (蔡群力) ^{Note (1)}	44	Executive Director and chief executive officer	Co-founder	11 September 2014	Overseeing the corporate management of our Group and implementing its business and marketing strategies and plans
Mr. Choi Hon Ting, Derek (蔡翰霆) ^{Note (1)} (formerly known as Choi Kwan Wai, Derek (蔡群威))	46	Executive Director	Co-founder	11 September 2014	Overseeing the strategic business development of our Group
Mr. Liu Tom Jing-zhi (劉敬之) ^{Note (2)}	45	Executive Director and chief operating officer	21 August 2006	11 September 2014	Overseeing the operation of manufacturing facilities and implementation of projects
Mr. Lao Kam Chi (劉金枝)	53	Executive Director and general manager (sales and marketing)	15 October 2002	11 September 2014	Managing and implementing sales and marketing strategies
Mr. Yu Ronghua (俞榮華)	49	Executive Director, and general manager (strategy and planning)	27 June 2011	11 September 2014	Overseeing the implementation of business strategies and plans
Mr. Chan Lewis (陳令紘) ^{Note (3)} (formerly known as Chan Yeung (陳氫))	44	Non-executive Director	15 December 2014	15 December 2014	Participating in the formulation of corporate and business strategies

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Name	Age	Position in our Group	Date of first joining our Group	Date of appointment as a Director	Main roles and responsibilities
Mr. Law Wang Chak, Waltery (羅宏澤)	51	Independent non-executive Director	[●] 2015	[●] 2015	Participating in meetings of the Board to bring an independent perspective and judgment on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required; taking the lead where potential conflicts of interest arise
Mr. Li Zongjin (李宗津)	62	Independent non-executive Director	[●] 2015	[●] 2015	
Mr. Lee Wai Yat, Paco (李偉壹)	48	Independent non-executive Director	[●] 2015	[●] 2015	
Mr. Fok Wai Shun, Wilson (霍偉舜)	40	Independent non-executive Director	[●] 2015	[●] 2015	

Notes:

- (1) Mr. Choi is the father of Ms. Glendy Choi and Mr. Derek Choi. Ms. Glendy Choi and Mr. Derek Choi are siblings.
- (2) Mr. Liu Tom Jing-zhi is the son-in-law of Mr. Choi’s elder brother.
- (3) Mr. Lewis Chan is the elder brother of Mr. Chan Hak, the sole director of Well Silver.

Executive Directors

Mr. Choi Hung Nang (蔡鴻能), aged 75, is our co-founder, chairman and executive Director. He is primarily responsible for supervising the operations and planning the business and marketing strategies of our Group. Mr. Choi established our Group in February 1999 and has been the chairman and director of Langfang D&G since June 2011.

Mr. Choi graduated from the Changsha Railway Institute, Hunan Province (currently known as Central South University) with a bachelor’s degree in railway construction in July 1963. In April 2012, he was awarded the outstanding alumni award from Central South University. Since April 2012, Mr. Choi has also been appointed as a guest professor at the Central South University for a term of five years, and as an honorary director of the board of directors of Central South University for a term of four years.

Prior to founding our Group, Mr. Choi had been engaged in the import and distribution of European and American branded specialised engineering equipment in Hong Kong and the PRC for over 12 years. Other major work experience of Mr. Choi includes:

DIRECTORS, SENIOR MANAGEMENT AND STAFF

<u>Name of entity</u>	<u>Principal business activities</u>	<u>Period of service</u>	<u>Position and major responsibilities</u>
Diamond Strong Limited (常剛有限公司)	Investment holding	December 1985 to present	Director, responsible for overseeing investment management decisions
Balama Prima Engineering Co., Ltd (百萊瑪工程有限公司)	Trading of utility installation and agricultural equipment and investment in the renewable energy industry	August 1986 to present	Director, responsible for overseeing the corporate management

Mr. Choi is the father of Ms. Glendy Choi and Mr. Derek Choi and the brother of the father-in-law of Mr. Liu Tom Jing-zhi.

Ms. Choi Kwan Li, Glendy (蔡群力), aged 44, is our executive Director and chief executive officer. She is primarily responsible for overseeing the corporate management of our Group and the overall management and implementation of business and marketing strategies and plans. Ms. Glendy Choi has over 16 years of experience in the trading and manufacturing of specialised engineering equipment. Ms. Glendy Choi was appointed as a director and general manager of Langfang D&G in June 2009. She was also appointed as the legal representative of Langfang D&G in June 2011. She was a director of Shenzhen D&G from November 2010 until its deregistration in September 2014.

Ms. Glendy Choi was awarded a bachelor’s degree in management sciences from the London School of Economics and Political Science in August 1992, and a master of business administration in marketing from the City University, London in November 1993. She is a fellow of certified risk planner of The Institute of Crisis and Risk Management, Hong Kong. In November 2014, Ms. Glendy Choi was admitted as a fellow of The Hong Kong Institute of Directors.

In November 2012, Ms. Glendy Choi was appointed as a vice-president of the China Construction Machinery Industry Association – Road Machinery Branch (中國工程機械工業協會築路機械分會) for a term of 4 years.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Other major work experience of Ms. Glendy Choi includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Balama Prima Engineering Co., Ltd (百萊瑪工程有限公司)	Trading of utility installation and agricultural equipment and investment in the renewable energy industry	August 1998 to October 1998	Executive director, responsible for the financial management of the Company
		October 1998 to June 2011	Managing director, responsible for overseeing the corporate management of the Company
BW Enterprise Company Limited (百威企業有限公司)	Investment holding	February 2009 to present	Director, responsible for overseeing investment management decisions
Rich Benefit International Limited (萬利國際有限公司)	Investment holding	June 2014 to present	Director, responsible for overseeing investment management decisions
Hong Kong D&G Machinery Company Limited (香港德基機械有限公司)	Investment holding	July 2014 to present	Director, responsible for overseeing investment management decisions

Ms. Glendy Choi is the daughter of Mr. Choi, the sister of Mr. Derek Choi and the cousin-in-law of Mr. Liu Tom Jing-zhi.

Mr. Choi Hon Ting, Derek (蔡翰霆) (formerly known as Choi Kwan Wai, Derek (蔡群威)), aged 46, is our executive Director. Mr. Derek Choi has over 23 years of experience in the trading of specialised engineering equipment. He is primarily responsible for overseeing the strategic business development of our Group. Mr. Derek Choi has been appointed as a director of Langfang D&G since June 2011.

Mr. Derek Choi was awarded a bachelor’s degree in agricultural engineering from Purdue University in May 1991. Mr. Derek Choi has been an executive council member of the China New Energy Chamber of Commerce since 2012 and is the chairman of the International Society of Trenchless Technologies. Mr. Derek Choi is a founding member of the China Hong Kong Society of Trenchless Technologies and served as vice-chairman, chairman, and Executive Secretary from 2002 to 2004.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Other major work experience of Mr. Derek Choi includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Balama Prima Engineering Co., Ltd (百萊瑪工程有限公司)	Trading of utility installation agricultural equipment and investment in the renewable energy industry	December 1991 to present	Executive director, responsible for the overall management of the company
Pure Technologies (China) Limited	Infrastructure condition assessment	May 2010 to present	Managing director, responsible for the overall management of the company
Symbior Energy Ltd. (新必奧能源有限公司)	Energy investment	August 2010 to present	Co-founder and president, responsible for the China business operations of the company
IPE Group Limited (國際精密集團有限公司) (HK stock code: 929)	Manufacture and sale of high precision metal components	June 2004 to present	Independent non-executive Director, responsible for participating in the overall management of the group independently

Mr. Derek Choi is the son of Mr. Choi, the brother of Ms. Glendy Choi and the cousin-in-law of Mr. Liu Tom Jing-zhi.

Mr. Liu Tom Jing-zhi (劉敬之), aged 45, is our executive Director and chief operating officer. He is primarily responsible for overseeing daily operations of manufacturing facilities and the implementation of business strategies and plans of our Group. Mr. Liu has over 11 years of experience in corporate management and business operations. He joined our Group in August 2006 as the director and deputy general manager of Langfang D&G.

In September 1999, Mr. Liu was awarded a graduate diploma in business administration from the University of Technology Sydney. Mr. Liu was recognised as an “Person of Innovation” by the Equipment Management Institute of Hebei Province Innovation Development Committee (河北省工業設備管理創新發展峰會組委會) in June 2012. Since April 2013, Mr. Liu has been appointed as a member of the Sixth Committee of Chinese People’s Political Consultative Conference – Langfang city (中國人民政治協商會議廊坊市第六屆委員會) for a term of 5 years.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Other major work experience of Mr. Liu includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Balama Prima Engineering Co., Ltd (百萊瑪工程有限公司)	Trading of utility installation and agricultural equipment and investment in the renewable energy industry	May 2003 to August 2003	Assistant to the general manager, responsible for supervising the implementation of business plans and strategies
Oriental Asia Enterprises Limited (東雄企業有限公司)	Investment holding	August 2003 to October 2005	General manager, responsible for the overall management of the Company
D&G Group Limited	Investment holding	October 2005 to July 2006	Deputy general manager, responsible for business management of the international division of the Company
BW Enterprise Company Limited (百威企業有限公司)	Investment holding	November 2007 to present	Director, responsible for overseeing investment management decisions
Zacks Vroom Investment Co., Limited (鴻豐隆投資有限公司)	Investment holding	January 2011 to present	Director, responsible for overseeing investment management decisions

Mr. Liu is the son-in-law of Mr. Choi’s elder brother and the cousin-in-law of Ms. Glendy Choi and Mr. Derek Choi.

Mr. Lao Kam Chi (劉金枝), aged 53, is our executive Director and general manager (sales and marketing). He is primarily responsible for managing and implementing sales and marketing strategies. Mr. Lao has over 27 years of experience in sales and marketing. Mr. Lao joined our Group in October 2002 as the general manager of the sales and marketing team in Beijing D&G. He has been a director of Langfang D&G since June 2011, and the general manager of our sales and marketing centre since August 2009.

In July 1982, Mr. Lao was awarded a bachelor’s degree in engineering from Southwest Jiaotong University (西南交通大學), Chengdu. Mr. Lao has also been appointed as the vice-chairman of the China Highway Construction Machine Branch (中國公路學會築路機械分會) for a term of five years since May 2012.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Other major work experience of Mr. Lao includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Ministry of Railways Tunnel Engineering Bureau* (鐵道部隧道工程局) (currently known as China Railway Tunnel Group)	Railway and tunnel construction and engineering	September 1983 to March 1988	Assistant engineer, responsible for training of maintenance personnel, equipment procurement and collation of engineering machinery technological data
Balama Prima Engineering Co., Ltd (百萊瑪工程有限公司)	Trading of utility installation and agricultural equipment and investment in the renewable energy industry	May 1988 to January 2007	Sales manager and branch manager, responsible for supervising the implementation of sales strategies and plans
		January 2007 to August 2009	Deputy general manager, responsible for managing the sales and marketing strategies of the Company
Denmike Investment Co., Limited (丹麥投資有限公司)	Investment holding	January 2011 to present	Director, responsible for overseeing investment management decisions

Mr. Yu Ronghua (俞榮華), aged 49, is our executive Director and general manager (strategy and planning). Mr. Yu has over 15 years of experience in corporate finance and management. He is primarily responsible for overseeing the implementation of business strategies and project plans. Since June 2011, Mr. Yu was appointed as a director and the deputy general manager of Langfang D&G.

Mr. Yu obtained his bachelor’s degree in engineering from Shanghai University in July 1997. Mr. Yu joined the Pudong branch of Industrial and Commercial Bank of China, Shanghai where he worked for more than 5 years from August 1997 to December 2002 in business development and management. In May 2008, Mr. Yu obtained a master of business administration from the University of Southern Queensland. In March 2013, Mr. Yu was certified as a qualified independent director and as a qualified board secretary by the Shanghai Stock Exchange.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Other major work experience of Mr. Yu includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Xin Ling Road branch of Industrial and Commercial Bank of China, Shanghai	Retail banking	March 2003 to February 2005	Branch general manager, responsible for overseeing and managing the daily business operations of the branch
Changshu Xingdao Building Materials Co., Ltd.* (常熟星島新興建材有限公司)	Manufacture of metals and mineral-coated products	March 2005 to September 2009	General manager of the new business division, responsible for business development and corporate restructuring in preparation for Listing
Minmetals Materials (Changshu) Management Co., Ltd. (五礦物產(常熟)管理有限公司)	Manufacture of metals and metal-coated products, operation and management of subsidiaries	September 2009 to December 2010	Deputy general manager, responsible for overseeing the business development and management of the company and its subsidiaries
D&G Group Limited	Investment holding	January 2011 to June 2011	Senior consultant, responsible for corporate restructuring in preparation for Listing

Non-executive Director

Mr. Chan Lewis (陳令紘) (formerly known as Chan Yeung (陳熹)), aged 44, has over 14 years of experience in portfolio management and investment research. Mr. Chan received his bachelor’s degree in economics from the University of Chicago in June 1994 and his master of arts from Columbia University in May 1996. Mr. Chan further obtained his Ph.D. from Harvard University in June 2000.

Mr. Chan was a winner of the Fama-DFA Prize of the Best Papers published in 2003 in the Journal of Financial Economics and is also a research fellow at The China Centre for Financial Research at Tsinghua University. Mr. Chan currently serves as a member of the Admissions, Budgets and Allocations Committee of the Community Chest of Hong Kong.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

He is licensed under the SFO as a responsible officer to carry out Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities.

Name of entity	Principal business activities	Period of Service	Position and major responsibilities
Maunakai Capital Partners (Hong Kong) Limited	Asset management	July 2004 to present	Managing partner, responsible for investment and business development
DT Capital Limited (formerly known as Incutech Investments Limited) (HK stock code: 356)	Investment in listed and unlisted securities	July 2014 to present	Executive director, responsible for implementing and developing investment ideas

Independent Non-executive Directors

Mr. Law Wang Chak, Waltery (羅宏澤), aged 51, was appointed as our independent non-executive Director on [●] 2015. Mr. Law graduated from the University of London with a bachelor’s degree in economics in August 1991 and a masters degree in financial economics in December 1995. Mr. Law is a fellow of both The Chartered Association of Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. Mr. Law is also an associate of The Institute of Chartered Accountants in England and Wales. Mr. Law has over 27 years of experience in the accounting, financial auditing, corporate financing and corporate restructuring profession. Mr. Law served in various positions such as vice president in finance and chief financial officer in four Hong Kong Main Board listed companies from 1992 to 2004. Prior to that, Mr. Law had worked in the audit division of Coopers & Lybrand, now PricewaterhouseCoopers, from 1987 to 1992.

Other major work experience of Mr. Law includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Nine Dragons Papers (Holdings) Limited (HK stock code: 2689)	Manufacture of linerboard, high performance corrugating medium and certain types of coated duplex board and printing and writing paper	June 2004 to July 2008	Chief financial officer, in charge of supervision of financial matters and investor relations
		August 2008 to October 2008	Non-executive director, participating in the formulation of financial and treasury policies
Profundas Capital Limited	Private equity and fund management services	December 2010 to present	Director, in charge of corporate finance assignments

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Orient Victory China Holdings Limited (HK stock code: 0265)	Sale of air-tickets and other travel related services and trading and manufacturing of jewellery products	September 2014 to present	Independent non-executive director, participating in the formulation of corporate strategies

Mr. Li Zongjin (李宗津), aged 62 was appointed as our independent non-executive Director on [●] 2015. Mr. Li graduated from Zhejiang University, China with a Bachelor’s degree in structure engineering in 1982. Mr. Li further obtained his master of science in December 1990 and his Ph.D. in December 1993 from Northwestern University, U.S. Mr. Li is a fellow of the American Concrete Institute and was a member of the Hong Kong Institute of Engineers.

Mr. Li has over 25 years of experience in the field of civil and structural engineering and has published 6 books in the area of materials engineering. In August 2008, Mr. Li was appointed as a chief scientist under the National Basic Research Program of China (973 Project). Mr. Li’s research project on geopolymer-based structural materials preparation technology was awarded second prize by the PRC Ministry of Education in January 2010.

Other major work experience of Mr. Li includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Southeast University, Nanjing	Education	November 2006 to October 2013	Adjunct Professor
Hong Kong University of Science and Technology	Education	July 1994 to December 1999 January 2000 to June 2006 January 2003 to December 2007 March 2005 to December 2007 July 2006 to present	Assistant Professor, Department of Civil Engineering Associate Professor, Department of Civil Engineering Associate Dean, School of Engineering Director of the Postgraduate program in Nano-science and Nano-technology Professor, Department of Civil and Environmental Engineering
Brilliant Concept International Group Limited (中衛國際集團有限公司)	Development and trading of civil engineering equipment and materials	March 2002 to present	Director, responsible for the overall management and operations of the company

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Lee Wai Yat, Paco (李偉壹), aged 48 was appointed as our independent non-executive Director on [●] 2015. Mr. Lee has over 11 years of experience in corporate finance and management. Mr. Lee graduated from Purdue University in May 1991 with a bachelor of science in management. Mr. Lee obtained his master of business administration from the Sasin Graduate Institute of Business Administration (a joint program between the Kellogg School of Management of Northwestern University, the Wharton School of the University of Pennsylvania, and Chulalongkorn University) in Bangkok in March 1993.

Mr. Lee completed the Director Certification Program held by the Thai Institute of Directors in June 2012. In 2014, Mr. Lee was awarded as the 3rd Best CFO in Thailand by FinanceAsia’s annual Best Managed Companies Poll.

Major work experience of Mr. Lee includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Thai Union Frozen Products Public Company Limited (Stock Exchange of Thailand code: TUF)	Producer of seafood and seafood based products	October 2003 to June 2012	Financial controller, responsible for the groups investor relations, fundraising, strategic financial analysis, budgeting and asset valuation
		July 2012 to present	Deputy general manager (investor relations and corporate investment), responsible for the group’s investor relations and fundraising, in charge of corporate investment and governance
Avanti Feeds Limited (listed on the Bombay Stock Exchange and National Stock Exchange of India Limited, ticker: AVANTI)	Producer of shrimp and aqua feed based in India	July 2012 to present	Non-executive director, participating in the formulation of corporate and business strategies
Pakfood Public Company Limited (Stock Exchange of Thailand code: PPC) (delisted in November 2013)	Producer and exporter of frozen shrimp and dim sum based in Thailand	April 2012 to present	Non-executive director, participating in the formulation of corporate and business strategies

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Fok Wai Shun, Wilson (霍偉舜), aged 40 was appointed as our independent non-executive Director on [●] 2015. Mr. Fok has over 14 years of experience in the fields of corporate finance, accounting and investment banking. Mr. Fok graduated in March 1998 from the University of Melbourne with a double bachelor degrees in commerce and in laws. Mr. Fok was admitted as a solicitor and barrister of the Supreme Court of Victoria, Australia in November 1998 and is a member of both the Hong Kong Institute of Certified Public Accountants and Certified Public Accountants, Australia. From January 2000 to April 2004, Mr. Fok worked in the transaction services and audit divisions at PricewaterhouseCoopers. From April 2004 to April 2010, Mr. Fok served in various positions, including vice-president, at the investment banking division of Piper Jaffray Asia Limited.

Other major work experience of Mr. Fok includes:

<u>Name of entity</u>	<u>Principal business activities</u>	<u>Period of service</u>	<u>Position and major responsibilities</u>
CCB International Capital Limited	Investment banking	April 2010 to August 2014	Executive Director (Corporate Finance), responsible for overseeing and supervising the origination and execution of corporate finance transactions
Challenge Capital Management Limited	Investment banking and asset management	September 2014 to present	Managing Director, responsible for the overall management of the company

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Disclosure required under Rule 13.51(2) of the Listing Rules

Mr. Choi and Mr. Derek Choi, our executive Directors, and Mr. Lewis Chan, our non-executive Director, were also the directors of the following companies which were incorporated in Hong Kong and were dissolved (other than by a member’s voluntary winding-up). The relevant details are as follows:

Name of Director	Company name	Date of dissolution	Details
Mr. Choi Hung Nang Mr. Choi Hon Ting, Derek	China Media Limited (華夏傳媒有限公司) (“China Media”)	1 December 1998	China Media was a joint venture company primarily engaged in publishing magazines. Due to the breaking down of the joint venture relationship, Mr. Choi and Mr. Derek Choi resigned as directors of China Media on 1 August 1995. Within 12 months after ceasing to act as the directors of China Media, the company commenced creditor’s voluntary winding up proceedings on 10 August 1995. The net liabilities of China Media were HK\$32,595,121.16 at the date of commencement of winding up. As a result of the proceedings, China Media was dissolved on 1 December 1998.
Mr. Lewis Chan	How to HK Limited	25 November 2011	How to HK Limited, which was incorporated in Hong Kong and was dissolved by striking off on 25 November 2011 under section 291 of the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong). How to HK Limited was inactive and had never commenced business.

Each of Mr. Choi, Mr. Derek Choi and Mr. Lewis Chan confirms that the dissolution of the companies mentioned in which he was a director had not resulted in any liability or obligation imposed against him.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Choi, Ms. Glendy Choi and Mr. Derek Choi, our executive Directors, were also the directors or legal representatives of the following companies which were incorporated in the PRC and had their business licences revoked. The relevant details are as follows:

Name of Director	Company name	Date of revocation	Reasons for revocation
Mr. Choi Hung Nang (legal representative)	Haikou Yinghua Decoration Engineering Co., Ltd* (海口市英華裝飾工程有限公司) (“Haikou Yinghua”)	15 December 2003	Haikou Yinghua was a sino-foreign cooperative joint venture company between Balama Engineering and Haikou Xiuying Real Estate Development Company* (海口市秀英房地產開發公司). The principal business of Haikou Yinghua was performing certain construction and interior design works. Due to the breaking down of the relationship with Haikou Xiuying Real Estate Development Company, Haikou Yinghua failed to attend annual examination and its business licence was revoked.
Mr. Choi Hung Nang (legal representative and director)	Wuhan Kaichuang Test Device Co., Ltd* (武漢開創測試設備有限公司) (“Wuhan Kaichuang”)	19 May 2002	Wuhan Kaichuang was a sino-foreign equity joint venture company between Balama Engineering and Wuhan Sida Electronic Systems Engineering Company* (武漢思達電氣系統工程公司). The principal business of Wuhan Kaichuang was developing and testing of certain electronic and technological systems. Due to the breaking down of the relationship with Wuhan Sida Electronic Systems Engineering Company, Wuhan Kaichuang failed to attend annual examination and its business licence was revoked.
Mr. Choi Hung Nang (legal representative and director) Ms. Choi Kwan Li, Glendy (director) Mr. Choi Hon Ting, Derek (director)	C&C Technology (Shenzhen) Co., Ltd. (希希科技(深圳)有限公司) (“C&C Technology”)	8 February 2002	C&C Technology was a wholly foreign-owned enterprise. The principal business of C&C Technology was research and development of electrical system equipment and software. C&C Technology failed to attend the annual examination since 1999 due to operational difficulties and its business licence was revoked.

According to the relevant laws and regulations in the PRC, a legal representative of a company whose business licence has been revoked is personally responsible for such revocation and should not be appointed as a director, supervisor or senior management of any company in the PRC for a period of three years from the date of revocation of the business licence.

Each of Mr. Choi, Ms. Glendy Choi and Mr. Derek Choi confirms that, save for the restrictions set out above, the revocation of the relevant business licences had not resulted in any restriction, liability or penalty imposed against him/her. Our PRC Legal Adviser has advised that the appointments of Mr. Choi, Ms. Glendy Choi and Mr. Derek Choi as directors of Langfang D&G are not in violation of any PRC laws and regulations.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Save as disclosed above, there is no other information relating to our Directors that needs to be disclosed under the requirements under Rule 13.51(2) of the Listing Rules.

Save as disclosed above, none of our Directors:

- (i) held any other positions in our Company or other members of our Group as at the Latest Practicable Date;
- (ii) had any other relationship with any Directors, senior management or Substantial Shareholders or Controlling Shareholders of our Company as at the Latest Practicable Date; and
- (iii) held any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

Except for such interests of the executive Directors in the Shares which are disclosed in “Substantial Shareholders” and “Statutory and General Information – Further information about our Directors – 12. Disclosure of interests” in Appendix IV to this documents, none of our Directors has any interest in the Shares within the meaning of Part XV of the SFO or is a director or an employee of a company which has an interest or short position in the Shares and underlying Shares of our Company.

Each of our Directors has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors after having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

SENIOR MANAGEMENT

The following table sets forth certain information with respect of our senior management (other than those of our executive Directors):

Name	Age	Position	Date of first joining our Group	Main roles and responsibilities
Mr. To Kwong Yeung (杜光揚)	36	Chief financial officer and company secretary	2 January 2015	Overseeing the financial planning and management, internal control, investor relations and company secretarial matters of our Group
Mr. Zhao Xiongzhi (趙雄志)	53	Chief technology officer	15 February 2012	Overseeing technical and product research and development

Senior Management

Mr. To Kwong Yeung (杜光揚), aged 36 is our chief financial officer and company secretary. Mr. To graduated from the University of Hong Kong in November 2000 with a bachelor of business administration in accounting and finance. Mr. To is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in January 2015, Mr. To worked in various positions, including senior manager, in the assurance and advisory business services department at Ernst & Young from 2000 to 2009. Mr. To has over 14 years of experience in the field of finance and accounting.

Other major work experience of Mr. To includes:

Name of entity	Principal business activities	Period of service	Position and major responsibilities
Boer Power Holdings Limited (HK stock code: 1685)	Design, manufacture and sale of electrical distribution equipment, and provision of electrical distribution systems solution services in the PRC	November 2009 to November 2011	Chief financial officer and company secretary, responsible for financial reporting, financial management, investor relations and company secretarial matters
Evergreen International Holdings Limited (HK stock code: 238)	Trading of menswear clothing and clothing accessories in the PRC	December 2011 to December 2014	Chief financial officer, responsible for financial reporting, financial management and investor relations

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Zhao Xiong Zhi (趙雄志), aged 53 is our chief technology officer. Mr. Zhao graduated from the Shaanxi Radio and TV University (陝西省廣播電視大學) in August 1983. Mr. Zhao completed his training in mechanical coating techniques conducted by the Ministry of Machinery Industry (機械工業部) in December 1984. In 1994, Mr. Zhao completed the Parker Plant Technical Training Programme and in 2003, Mr. Zhao was approved by the Appraising and Approving Committee for Professional & Technical Competence as a senior engineer. Mr. Zhao joined our Group in February 2012 as the chief engineer and deputy director of the Technology R&D Centre.

Other major work experience of Mr. Zhao includes:

<u>Name of entity</u>	<u>Principal business activities</u>	<u>Period of service</u>	<u>Position and major responsibilities</u>
Ministry of Transport Xian Road Construction Machinery Co., Ltd.* (交通部西安築路機械有限公司)	Road construction and maintenance	April 1986 to April 2004	Deputy Director of the Research and Development Centre, responsible for the development and design of road construction machinery
Shandong Hongda Construction Machinery Group Co., Ltd.* (山東鴻達建工集團)	Manufacturing of construction machinery	April 2004 to February 2012	Assistant to the chief executive officer and director of the Asphalt Mixing Institute, responsible for the development, design and sales of road construction machinery

COMPANY SECRETARY

Mr. To Kwong Yeung (杜光揚) is our company secretary. Please refer to the paragraph headed “Senior Management” in this section of the document for a description of his biography.

BOARD COMMITTEES

Each of the three board committees has written terms of reference. The committees operate in accordance with the terms of reference established by our Board.

Audit committee

We have established an audit committee pursuant to a resolution of our Directors passed on [●] 2015. Our audit committee has written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report (“CG Code”) as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee of our Company are mainly to make recommendations to our Board on the appointment and dismissal of the external auditor, review the financial statements and information and provide advice in respect of financial reporting and oversee the internal control procedures of our Company. At present, the audit committee consists of four members: all four independent non-executive Directors, being Mr. Law Wang Chak, Waltery, who will serve as chairman of the committee, Mr. Lee Wai Yat, Paco, Mr. Li Zongjin and Mr. Fok Wai Shun, Wilson.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Remuneration committee

We have established a remuneration committee pursuant to a resolution of our Directors passed on [●] 2015. Our Company has written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The primary functions of the remuneration committee of our Company are to make recommendation to our Board on the overall remuneration policy and the structure relating to all Directors and senior management of our Group, review performance-based remuneration and ensure none of our Directors determine their own remuneration. At present, the remuneration committee consists of three members: one executive Director, being Ms. Glendy Choi and two independent non-executive Directors, being Mr. Fok Wai Shun, Wilson, who will serve as chairman of the committee, and Mr. Law Wang Chak, Waltery.

Nomination Committee

We have established a nomination committee pursuant to a resolution of our Directors passed on [●] 2015. Our Company has written terms of reference in compliance with the CG Code. The primary functions of the nomination committee of our Company are to review the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and make recommendation to our Board on any proposed changes to our Board to complement our Company’s corporate strategy; identify individuals suitably qualified as potential board members and select or make recommendations to our Board on the selection of individuals nominated for directorships; to assess the independence of Independent non-executive Directors; and make recommendations to our Board on the appointment or reappointment of Directors and succession planning of Directors, in particular that of our chairman and the chief executive officer. At present, the nomination committee consists of three members: one executive Director, being Mr. Choi, who will serve as chairman of the committee, and two independent non-executive Directors, being Mr. Li Zongjin and Mr. Lee Wai Yat, Paco.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, discretionary bonuses, contributions to pension schemes, long-term incentives, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations.

The aggregate amount of remuneration including salaries, allowances and benefits in kind which were paid to our Directors for the two years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014 were approximately RMB1.1 million, RMB1.1 million and RMB0.9 million, respectively.

The aggregate amount of remuneration including salaries, allowances and benefits in kind which were paid to our five highest paid individuals (excluding the Directors amongst the five highest paid individuals) for the two years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014 were approximately RMB1.3 million, RMB1.0 million and RMB0.8 million, respectively.

Our Company regularly reviews and determines the remuneration and compensation packages of our Directors and senior management. After Listing, the remuneration committee of our Company will review and determine the remuneration and compensation packages of our

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group. Under such arrangement and pursuant to our Directors’ service contracts and letters of appointment referred to in the paragraph headed “Statutory and General Information – Further information about our Directors – 10. Particulars of service contracts” in Appendix IV to this document, the aggregate amount of remuneration including salaries, allowances and benefits in kind payable to our Directors (excluding any discretionary bonuses) for the year ending 31 December 2015 is estimated to be approximately HK\$5.8 million (equivalent to approximately RMB4.6 million).

During the Track Record Period, no remuneration was paid by our Group to, or received by, our Directors or senior management as an inducement to join or upon joining our Group or as a compensation for loss of office. None of our Directors waived any remuneration during the same period.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme pursuant to which selected participants may be granted options to subscribe for shares as incentives or rewards for their service rendered to our Group and any entity in which any member of our Group holds an equity interest. For details of the Share Option Scheme, please refer to the section headed “Statutory and General Information – Other Information – 16. Share Option Scheme” in Appendix IV to this document.

COMPLIANCE ADVISER

We have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our Company must consult with and, if necessary, seek advice from the compliance adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including but not limited to share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds of the [REDACTED] in a manner different from that detailed in this document or where our business activities, development or results of our Company deviate from any forecast, estimate, or other information in this document; and
- (iv) where the Stock Exchange makes inquiries of our Company regarding unusual movements in the price or trading volume of Shares, the possible development of a false market in its securities, or any other matters as mentioned under Rule 13.10 of the Listing Rules.

The term of appointment of our compliance adviser will commence on the Listing Date and will end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the following persons or entities will, immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and taking no account of any Shares that may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Capacity	Number of Shares held (L) ^(Note 1)	Approximate percentage of shareholding in our Company
BVI-Prima DG ^(Note 2)	Beneficial owner	[REDACTED]	[REDACTED]
	Interests of parties to an agreement required to be disclosed under section 317 of the SFO	[REDACTED]	[REDACTED]
		<u>[REDACTED]</u>	<u>[REDACTED]</u>
Mr. Choi ^(Note 3)	Interest in controlled corporation	[REDACTED]	[REDACTED]
		<u>[REDACTED]</u>	<u>[REDACTED]</u>
Ms. Tin ^(Note 4)	Interest of spouse	[REDACTED]	[REDACTED]
		<u>[REDACTED]</u>	<u>[REDACTED]</u>
Mr. Yu Ronghua (“Mr. Yu”) ^(Note 5)	Interest in controlled corporation	[REDACTED]	[REDACTED]
	Interests of parties to an agreement required to be disclosed under section 317 of the SFO	[REDACTED]	[REDACTED]
		<u>[REDACTED]</u>	<u>[REDACTED]</u>

SUBSTANTIAL SHAREHOLDERS

Name	Capacity	Number of Shares held (L) ^(Note 1)	Approximate percentage of shareholding in our Company
Each of the 43 employee shareholders of BVI-DY ^(Note 6)	Interests of parties to an agreement required to be disclosed under section 317 of the SFO	[REDACTED]	[REDACTED]
Each of the 34 employee shareholders of BVI-Decai ^(Note 7)	Interests of parties to an agreement required to be disclosed under section 317 of the SFO	[REDACTED]	[REDACTED]
Regal Sky	Beneficial owner	[REDACTED]	[REDACTED]

Notes:

- The letter “L” denotes the entity/person’s long position in the Shares.
- BVI-Prima DG directly holds [REDACTED] of the issued share capital of the Company. BVI-Prima DG also entered into an agreement with each of (i) the 43 employee shareholders of BVI-DY; (ii) the 34 employee shareholders of BVI-Decai; and (iii) Mr. Yu, for advancing a loan to each of them for paying up the nil-paid shares in the Offshore Employee Holding Entities, respectively. The Offshore Employee Holding Entities in turn applied such capital to acquire the [REDACTED] of Shares in the issued share capital of our Company, respectively. BVI-Prima DG is deemed to be interested in all the Shares in which the Offshore Employee Holding Entities are interested by virtue of section 317 of the SFO.
- These Shares are held by BVI-Prima DG which is directly held as to [REDACTED] by Mr. Choi. Accordingly, by virtue of the SFO, Mr. Choi is deemed to be interested in all the Shares in which BVI-Prima DG is interested.
- Since Ms. Tin is the spouse of Mr. Choi, Ms. Tin is deemed to be interested in the same number of Shares in which Mr. Choi is interested by virtue of the SFO.
- Mr. Yu directly holds 100% of the issued share capital of BVI-Wonderful which in turn holds [REDACTED] of the Shares in the issued share capital of the Company. Accordingly, by virtue of the SFO, Mr. Yu is deemed to be interested in all the Shares held by BVI-Wonderful. Mr. Yu entered into an agreement with BVI-Prima DG for the borrowing of a loan from BVI-Prima DG to pay up the nil-paid shares in BVI-Wonderful. BVI-Wonderful in turn applied such capital to acquire the [REDACTED] of Shares in the issued share capital of our Company. Mr. Yu is deemed to be interested in all the Shares in which BVI-Prima DG is interested by virtue of section 317 of the SFO.
- BVI-DY is wholly-owned by the following 43 employees of the Group: Chen Meiyun (陳美雲), Cao Wensheng (曹文聲), Chu Jindong (鉏金東), Guo Cheng (郭誠), Guo Shoushen (郭守慎), Guo Weiqun (郭維群), Hong Changbin (洪常斌), Li Chunsheng (李春生), Li Tong (李彤), Liu Xinping (劉新平), Wang Haijun (王海軍), Wang Naijun (王乃軍), Wang Wei (王威), Yang Xiaofeng (楊曉峰), You Lixin (游立新), Zeng Xianguang (曾憲廣), Zhou Shaofei (周紹飛), Zhou Xiang (周翔), Zhang Wenqiang (張文強), Lu Xiaofeng (盧曉峰), Zhao Xiongzhi (趙雄志), Liu Huixian (劉慧賢), Jiao Jie (焦潔), Guo Guangzhong (郭廣忠), Zhang Aijie (張愛傑), Hou Yinbo (侯印波), Hou Boxin (侯伯新), Hou Yinqi (侯印起), Bai Jinshan (白金山), Hao Hongliang (郝紅亮), Jia Li (賈莉), Xiao Guojun (肖國軍), Gao Zhijun (高志軍), Liu Qiaoxia (劉巧霞), Jiang Haijun (姜海軍), Zhao Xinli (趙欣麗), Tang Houyi (唐厚義), Wu Qiong (吳瓊), Du Ge (都戈), Liu Jinlong (劉金龍), Zhang Quanli (張全利), Hu Yanhong (胡雁鴻) and Cheng Wenqiu (成文秋).

SUBSTANTIAL SHAREHOLDERS

BVI-DY holds [REDACTED] of Shares in the issued share capital of our Company. Each of the 43 employee shareholders of BVI-DY entered into an agreement with BVI-Prima DG for the borrowing of a loan from BVI-Prima DG to pay up the nil-paid shares in BVI-DY. BVI-DY in turn applied such aggregate capital to acquire the [REDACTED] of Shares in the issued share capital of our Company. Each of the 43 employee shareholders is deemed to be interested in all the Shares in which BVI-Prima DG and BVI-DY are interested by virtue of section 317 of the SFO.

7. BVI-Decai is wholly-owned by the following 34 employees of the Group: Wang Weiqun (王為群), Zhou Wei (周偉), Wei Jianqiang (魏建強), Zhang Chunzheng (張春錚), Li Xinwu (李新武), Duan Yongchang (段永昌), Sui Chunliang (隋春亮), Yu Honglin (于洪林), Wang Quanling (王全玲), Hao Yanwei (郝豔偉), Yang Zhen (楊震), Kang Guang (康光), Zhang Shuai (張帥), Chen Qingsong (陳青松), Dong Zhengwen (董政雯), Chen Chengguang (陳城光), Peng Jiang (彭江), Ma Wenqiang (馬文強), Li Liulin (李柳林), Zhou Yicheng (周鈺成), Su Wenhua (蘇文華), Hu Zhenpeng (胡振鵬), Cao Wenbo (曹文波), Wang Yanguan (王燕關), Lu Jinbo (蘆金波), Zhang Jisheng (張吉生), Zhang Baohua (張保華), Bai Wenhai (白文海), Mu Guangya (穆光亞), Hou Guoling (侯國玲), Li Shumin (李樹民), Ma Lixin (馬立新), Li Zhonghua (李忠華) and Guan Xiangdong (關向東).

BVI-Decai holds [REDACTED] of Shares in the issued share capital of our Company. Each of the 34 employee shareholders of BVI-Decai entered into an agreement with BVI-Prima DG for the borrowing of a loan from BVI-Prima DG to pay up the nil-paid shares in BVI-Decai. BVI-Decai in turn applied such aggregate capital to acquire the [REDACTED] of Shares in the issued share capital of our Company. Each of the 34 employee shareholders is deemed to be interested in all the Shares in which BVI-Prima DG and BVI-Decai are interested by virtue of section 317 of the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of our Company.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Capitalisation Issue, the Capitalisation of the Loans and the [REDACTED]:

Authorised Share Capital

	<i>HK\$</i>
2,000,000,000 Shares	20,000,000

Issued Share Capital

Assuming the [REDACTED] is not exercised, the share capital of our Company immediately following the completion of the [REDACTED] and the Capitalisation Issue will be as follows:

	<i>HK\$</i>
[8,400] Shares in issue at the date of this document	[84]
[377,991,600] Shares to be issued pursuant to the Capitalisation Issue ^(Note)	[3,779,916]
[72,000,000] Shares to be issued pursuant to the Capitalisation of the Loans	[720,000]
<u>[REDACTED]</u> Shares to be issued in the [REDACTED]	<u>[REDACTED]</u>
<u>[REDACTED]</u> Total	<u>[REDACTED]</u>

Assuming the [REDACTED] is exercised in full, the share capital of our Company immediately following the completion of the Capitalisation Issue, the Capitalisation of the Loans and the [REDACTED] will be as follows:

	<i>HK\$</i>
[8,400] Shares in issue at the date of this document	[84]
[377,991,600] Shares to be issued pursuant to the Capitalisation Issue ^(Note 1)	[3,779,916]
[72,000,000] Shares to be issued pursuant to the Capitalisation of the Loans ^(Note 2)	[720,000]
<u>[REDACTED]</u> Shares to be issued in the [REDACTED]	<u>[REDACTED]</u>
<u>[REDACTED]</u> Shares to be issued upon exercise of the [REDACTED] in full	<u>[REDACTED]</u>
<u>[REDACTED]</u> Total	<u>[REDACTED]</u>

SHARE CAPITAL

Notes:

- (1) Pursuant to the written resolutions passed by our Shareholders on [●] 2015, conditional on the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to capitalise an amount of HK\$[3,779,916] standing to the credit of the share premium of our Company as a result of the [REDACTED] and apply such sum in paying up in full at par [377,991,600] Shares for allotment and issue to the persons whose names appear on the register of members of our Company as at [●] 2015 in proportion to their then existing shareholdings in our Company, and the Shares to be allotted and issued pursuant to the Capitalisation Issue shall rank *pari passu* in all respects with the existing issued Shares and the Shares to be issued pursuant to the Capitalisation of the Loans.
- (2) Pursuant to the written resolutions passed by our Shareholders on [●] 2015, our Directors were authorised to allot and issue [52,260,000] Shares to Regal Sky and [19,740,000] Shares to BVI-Prima DG, all credited as fully-paid, on the Listing Date by capitalising the Prima DG Shareholder’s Loan, the HK\$1.4M Loan and the Diamond Strong Loan in full, and the Shares to be allotted and issued pursuant to the Capitalisation of the Loans shall rank *pari passu* in all respects with the existing issued Shares and the Shares to be issued pursuant to the Capitalisation Issue.

Assumptions

The above table assumes the [REDACTED] has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account: (i) any Shares which may be allotted and issued (a) pursuant to the exercise of the [REDACTED] or (b) pursuant to the exercise of the options which may be granted under Share Option Scheme; (ii) any Shares which may be allotted and issued pursuant to the issuing mandate (as described below); or (iii) any Shares which may be repurchased by our Company pursuant to the repurchase mandate (as described below).

Ranking

The [REDACTED] will rank *pari passu* in all respects with all of the Shares now in issue or to be issued as mentioned in this document, and in particular, will rank in full for all dividends or other distributions hereafter declared, made or paid on the Shares on or after the date on which they are issued, save for entitlements to the Capitalisation Issue.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Statutory and General Information – Other information – 16. Share Option Scheme” in Appendix IV to this document.

SHARE CAPITAL

ISSUING MANDATE

Subject to the [REDACTED] becomes unconditional, our Directors have been granted a general and unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [REDACTED] (excluding any Shares which may be allotted and issued upon the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme); and
- (ii) the aggregate nominal amount of the share capital of our Company repurchased by our Company (if any) pursuant to the repurchase mandate as referred to below.

The issuing mandate also authorises our Directors to allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangements, or upon the grant of options or the exercise of any options that may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The issuing mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting;
- (ii) the expiration of the period within which our Company is required by the applicable laws or the Articles to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in the general meeting.

For further details of this issuing mandate, please see the paragraph headed “Further information about our Group – 3. Resolutions in writing passed by our Shareholders on [●] 2015” in Appendix IV to this document.

SHARE CAPITAL

REPURCHASE MANDATE

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue following the completion of the [REDACTED] (excluding any Shares which may be allotted and issued upon the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme).

The repurchase mandate only relates to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose) and which are in accordance with the Listing Rules and all other applicable laws and regulations.

The repurchase mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting;
- (ii) the expiration of the period within which our Company is required by the applicable laws or the Articles to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in the general meeting.

For further details of this repurchase mandate, please see the paragraph headed “Statutory and General Information – Further information about our Group – 6. Repurchase by our Company of its own securities” in Appendix IV to this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of Companies Law, an exempted company is not required by law to hold any general meetings or class meetings on an annual or regular basis. The holding of a general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, we will hold general meetings as prescribed for under our Articles, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix III to this document.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operations together with our combined financial statements as of and for the years ended 31 December 2012, 2013 and the nine months ended 30 September 2014 and the accompanying notes included in the Accountants’ Report set out in Appendix I to this document. The combined 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 sales of our asphalt mixing plants in the PRC for PRC road construction or maintenance projects for the years ended 31 December 2012 and 2013 and nine months ended 30 September 2014, was approximately 78.1%, 77.2% and 87.0%, 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,

- (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%.

FINANCIAL INFORMATION

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 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》), 的通知(交規劃發[2011]191號) and the in the light of the Supportive Field of National Major New Product Plan 2013* (《國家重點新品計劃支持領域—2013年》) issued by the Ministry of Science and Technology, and the Ministry of Transport released the Guidance on Promoting Road Pavement Material Recycling* (《推進公路路面材料循環利用工作的指導意見》) (the “**Guideline**”).

However, the PRC Ministry of Commerce has 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)》) on 24 December 2011 (the “**Catalogue**”) such that foreign enterprise operating in the manufacturing of asphalt and concrete mixing and paving equipment now falls within the “limited” category even though it was previously in the “permitted” category in the Catalogue. In addition, according to the reply (serial number FaGaiBan [2012] 2636), issued by the NDRC on 14 September 2012, Langfang D&G has obtained approval to increase its production capacity from 50 units to 85 units of asphalt mixing plants per year and the additional 35 units approved should be Recycling Plants. The Recycling Plants projects undertake by Langfang D&G falls within the “manufacturing of solid waste disposal equipment”, which is classified as Class 3. Article 18. Item 58. of “Encouraged” category in accordance with the Catalogue. During the Track Record Period, we have manufactured and sold 41, 41 and 19 units of Conventional Plant for the years ended 31 December 2012 and 2013 and for the nine months ended 30 September 2014, respectively. Although we have been engaging in the business relating to the sale of asphalt mixing plants before the amendment to the Catalogue came into force and we are therefore not affected by such amendment, and eventhough our Recycling Plant business is supported by PRC national policies, we may face difficulties in carrying out or expanding our Conventional Plant business if it becomes difficult to obtain approval from the NDRC to expand our production capacity.

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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 39 units of asphalt mixing plants for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014. Based on the annual production capacity of 50 units of asphalt mixing plants, the annualised utilization rate of our production facilities approximately 98.0%, 106.0% and 104.0%, 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. 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 77.7% 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. We are in

FINANCIAL INFORMATION

the process of applying for renewal of Langfang D&G’s qualification as a high-technology enterprise from 2014 to 2016. As advised by our PRC legal advisors, the registration procedure is only a formality to be completed. As such, we expect that Langfang D&G will be able to renew its High-Technology Enterprise qualification and is entitled to the preferential EIT rate of 15% from 2014 to 2016. We cannot assure you that Langfang D&G will continue to qualify 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 4.9% 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 2.9% of our total revenue, respectively. As at 30 September 2014, our trade receivables from such sales accounted for approximately 2.6% of our total trade and bills receivables. 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 combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and the combined cash flow statements of our Group include the results of operations of the companies now comprising our Group 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 combined statements of financial position of the Group as at 31 December 2012 and 2013 and 30 September 2014 have been prepared to present the state of affairs of the companies now comprising the Group as at those dates as if the current group structure had been in existence at the respective dates.

Intra-group balances and transactions and any unrealised profits arising from 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.

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our combined 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 combined 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.

FINANCIAL INFORMATION

(iv) Interest income

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

(v) Government grants

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

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 investments in equity securities and trade and other receivables

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate (i.e. the effective interest

FINANCIAL INFORMATION

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 combined 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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

SELECTED FINANCIAL STATEMENT INFORMATION

The following table sets forth selected items of our combined 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		Nine months ended 30 September	
	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)	(Unaudited)
Turnover	364,339	412,260	266,942	298,240
Cost of sales	(214,500)	(238,528)	(159,444)	(174,706)
Gross profit	<u>149,839</u>	<u>173,732</u>	<u>107,498</u>	<u>123,534</u>
Other revenue and net income	1,763	5,995	1,781	1,429
Distribution costs	(33,281)	(36,254)	(25,394)	(28,193)
Administrative expenses	<u>(46,743)</u>	<u>(53,605)</u>	<u>(34,325)</u>	<u>(34,174)</u>
Profit from operations	71,578	89,868	49,560	62,596
Finance costs	<u>(11,422)</u>	<u>(3,714)</u>	<u>(2,807)</u>	<u>(1,079)</u>
Profit before taxation	60,156	86,154	46,753	61,517
Income tax	<u>(10,438)</u>	<u>(13,662)</u>	<u>(7,258)</u>	<u>(10,789)</u>
Profit for the year/period	<u><u>49,718</u></u>	<u><u>72,492</u></u>	<u><u>39,495</u></u>	<u><u>50,728</u></u>
Profit for the year/period attributable to:				
Equity shareholders of the company	46,279	60,338	32,810	41,896
Non-controlling interests	<u>3,439</u>	<u>12,154</u>	<u>6,685</u>	<u>8,832</u>
	<u><u>49,718</u></u>	<u><u>72,492</u></u>	<u><u>39,495</u></u>	<u><u>50,728</u></u>

FINANCIAL INFORMATION

The following table sets forth selected items of our combined 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		As at 30 September
	2012	2013	2014
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			(Unaudited)
Non-current assets			
Property, plant and equipment	58,534	68,227	71,223
Investment properties	7,838	7,193	6,710
Lease prepayments	6,937	6,737	6,587
Trade and other receivables	5,322	11,827	15,605
Other non-current assets	4,479	3,691	3,246
Deferred tax assets	2,664	5,961	7,755
	85,774	103,636	111,126
Current assets			
Inventories	94,883	104,365	134,162
Trade and other receivables	162,013	212,698	286,944
Pledged bank deposits	12,188	8,516	9,686
Cash and cash equivalents	62,798	67,407	23,713
	331,882	392,986	454,505
Current liabilities			
Loans and borrowings	39,139	31,836	52,235
Trade and other payables	104,785	111,701	227,501
Income tax payable	547	7,620	6,634
	144,471	151,157	286,370
Net current assets	187,411	241,829	168,135
NET ASSETS	273,185	345,465	279,261

FINANCIAL INFORMATION

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

Turnover

We generate our revenue primarily from sales of asphalt mixing plants and, to a lesser extent, from sales 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				Nine months ended 30 September			
	2012		2013		2013		2014	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
					(Unaudited)	(Unaudited)		
Sales of asphalt mixing plants	324,393	89.0	350,792	85.1	230,638	86.4	253,987	85.2
Sales of spare parts and components and provision of equipment modification services	27,404	7.6	44,238	10.7	26,271	9.8	28,579	9.5
Operating lease income of asphalt mixing plants	12,542	3.4	17,230	4.2	10,033	3.8	15,674	5.3
	364,339	100.0	412,260	100.0	266,942	100.0	298,240	100.0

During the Track Record Period, the percentage of revenue from sales of asphalt mixing plants decreased from approximately 89.0% in 2012 to approximately 85.1% in 2013 and remained stable at approximately 85.2% for the nine months ended 30 September 2014. The percentage of revenue from sales 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 remained stable at approximately 14.8% for the nine months ended 30 September 2014. While we expect that sales of asphalt mixing plants will remain to be our largest business by revenue contribution, we seek to increase the percentage of revenue from sales 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.

FINANCIAL INFORMATION

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						Nine months ended 30 September					
	2012			2013			2013			2014		
	Turnover	Number of Plants	Average	Turnover	Number of Plants	Average	Turnover	Number of Plants	Average	Turnover	Number of Plants	Average
			Selling Price			Selling Price			Selling Price			Selling Price
RMB'000		RMB'000	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	14,120	2	7,060	43,599	5	8,720
4000 model series	109,651	15	7,310	117,610	16	7,351	81,598	11	7,418	32,968	5	6,594
3000 model series	66,297	10	6,630	71,011	11	6,456	45,053	7	6,436	35,996	6	5,999
2000 model series or below	38,600	10	3,860	48,385	11	4,399	39,036	9	4,337	10,684	3	3,561
	<u>271,496</u>	<u>41</u>	<u>6,622</u>	<u>260,227</u>	<u>41</u>	<u>6,347</u>	<u>179,807</u>	<u>29</u>	<u>6,200</u>	<u>123,247</u>	<u>19</u>	<u>6,487</u>
Recycling Plants												
4000 model series	15,800	2	7,900	62,465	8	7,808	22,740	3	7,580	75,517	10	7,552
3000 model series	23,898	3	7,966	24,126	3	8,042	24,126	4	6,032	42,786	7	6,112
2000 model series or below	13,199	3	4,400	3,974	1	3,974	3,965	1	3,965	12,437	3	4,146
	<u>52,897</u>	<u>8</u>	<u>6,612</u>	<u>90,565</u>	<u>12</u>	<u>7,547</u>	<u>50,831</u>	<u>8</u>	<u>6,354</u>	<u>130,740</u>	<u>20</u>	<u>6,537</u>
Total:	<u>324,393</u>	<u>49</u>	<u>6,620</u>	<u>350,792</u>	<u>53</u>	<u>6,619</u>	<u>230,638</u>	<u>37</u>	<u>6,233</u>	<u>253,987</u>	<u>39</u>	<u>6,512</u>

Our revenue from sales 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. 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.

FINANCIAL INFORMATION

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 nine months ended 30 September 2013 and 2014, the total number of asphalt mixing plants sold increased from 37 units to 39 units, 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 8 units to 20 units in total offset by a decrease in the units of conventional Plants sold from 29 units to 19 units, mainly due to a decrease in the number of units sold from 2000 model series or below to 4000 model series. Such change in product mix is due to our business strategy to promote the sales of our Recycling Plant.

For the nine months ended 30 September 2013 and 2014, the average selling price of our 3000 model series and 4000 model series Conventional Plants decreased by approximately 6.8% and 11.1% 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 17.9% in the period, mainly due to the fact that we offered 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 RMB1.7 million or 23.5%, mainly due to sales of two 5000 model series Conventional Plants at a relatively lower selling price for the nine months ended 30 September 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. The average selling price of Recycling Plants remained stable for the nine months ended 30 September 2013 and 2014.

During the Track Record Period, the revenue from sales of Conventional Plants accounted for approximately 83.7%, 74.2% and 48.5% of our total revenue from sales of asphalt mixing plants in 2012 and 2013, and for the nine months ended 30 September 2014, respectively. The revenue from sales of Recycling Plants increased significantly from approximately 16.3% in 2012 to approximately 25.8% in 2013 and to approximately 51.5% for the nine months ended 30 September 2014 of total revenue from sales 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 sales of our Recycling Plants.

In terms of products, we focus on sales of medium to large scale asphalt mixing plants. Our revenue generated from sales of medium to large scale asphalt mixing plants, accounted for approximately 84.0%, 85.1% and 90.9% of our revenue from sales of asphalt mixing plants in 2012, 2013 and for the nine months ended 30 September 2014, respectively.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our revenue from sales of asphalt mixing plants by geographical regions for the periods indicated:

	Year ended 31 December				Nine months ended 30 September			
	2012		2013		2013		2014	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i> (Unaudited)	% (Unaudited)	<i>RMB'000</i> (Unaudited)	% (Unaudited)
China								
- Domestic	253,343	78.1	270,623	77.2	175,162	75.9	221,059	87.0
- Indirect export	20,970	6.5	29,257	8.3	16,838	7.3	19,329	7.6
	274,313	84.6	299,880	85.5	192,000	83.2	240,388	94.6
Outside China								
- Direct export	50,080	15.4	50,912	14.5	38,638	16.8	13,599	5.4
Total:	<u>324,393</u>	<u>100.0</u>	<u>350,792</u>	<u>100.0</u>	<u>230,638</u>	<u>100.0</u>	<u>253,987</u>	<u>100.0</u>

During the Track Record Period, our revenue generated from customers which are based in China accounted for approximately 84.6%, 85.5% and 94.6% of our revenue from sales of asphalt mixing plants, respectively. Amongst the sales to customers in China, approximately 6.5%, 8.3% and 7.6% of revenue from sales of asphalt mixing plants in 2012, 2013 and the nine months ended 30 September 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 5.4% of our total revenue from sales of asphalt mixing plants in 2012, 2013 and the nine months ended 30 September 2014, respectively. The decrease in our revenue from our direct export sales for the nine months ended 30 September 2014 by approximately RMB25.0 million or 64.8% from approximately RMB38.6 million for the nine months ended 30 September 2013 to approximately RMB13.6 million for the nine months ended 30 September 2014 was mainly due to the fact that we did not recognise revenue from sales of five asphalt mixing plants for the nine months ended 30 September 2014 with the inventory amount of approximately RMB16.5 million that we have already exported directly in the same period because the customer acceptance procedures were not completed before then. 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”.

FINANCIAL INFORMATION

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				Nine months ended 30 September			
	2012		2013		2013		2014	
	<i>RMB'000</i>	<i>% of costs of sale</i>	<i>RMB'000</i>	<i>% of costs of sale</i>	<i>RMB'000</i>	<i>% of costs of sale</i>	<i>RMB'000</i>	<i>% of costs of sale</i>
					(Unaudited)		(Unaudited)	
Sales of asphalt mixing plants	194,958	90.9	210,197	88.2	142,015	89.1	155,677	89.1
Sales of spare parts and components and provision of equipment modification services	17,448	8.1	24,783	10.3	14,783	9.3	15,658	9.0
Operating lease of asphalt mixing plants	2,094	1.0	3,548	1.5	2,646	1.6	3,371	1.9
	<u>214,500</u>	<u>100.0</u>	<u>238,528</u>	<u>100.0</u>	<u>159,444</u>	<u>100.0</u>	<u>174,706</u>	<u>100.0</u>

Sales of asphalt mixing plant

Our cost of sales with respect to sales 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 sales of asphalt mixing plants accounted for approximately 78.1%, 74.7% and 77.7% of our cost of sales 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 sales 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.

FINANCIAL INFORMATION

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	<u>+/-5%</u>	<u>+/-10%</u>
	<u>RMB'000</u>	<u>RMB'000</u>
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
Nine months ended 30 September 2014	-/+6,783	-/+13,567

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

Our cost of sales with respect to sales 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 9.0% 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 increased by approximately RMB0.9 million or 5.9% from approximately RMB14.8 million for the nine months ended 30 September 2013 to approximately RMB15.7 million for the nine months ended 30 September 2014, mainly due to an increase in sales 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 1.9% of our total cost of sales during the Track Record Period, respectively.

FINANCIAL INFORMATION

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				Nine months ended 30 September			
	2012		2013		2013		2014	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
					(Unaudited)		(Unaudited)	
Sales of asphalt mixing plants								
– Conventional Plants	107,063	39.4	102,479	39.4	67,681	37.6	45,451	36.9
– Recycling Plants	22,371	42.3	38,117	42.1	20,942	41.2	52,858	40.4
Sub-total	129,434	39.9	140,596	40.1	88,623	38.4	98,309	38.7
Sales of spare parts and components and provision of equipment modification services	9,956	36.3	19,454	44.0	11,488	43.7	12,922	45.2
Operating lease of asphalt mixing plants	10,449	83.3	13,682	79.4	7,387	73.6	12,303	78.5
Total	<u>149,839</u>	<u>41.1</u>	<u>173,732</u>	<u>42.1</u>	<u>107,498</u>	<u>40.3</u>	<u>123,534</u>	<u>41.4</u>

The gross profit from sales 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 RMB9.7 million or 10.9% from approximately RMB88.6 million for the nine months ended 30 September 2013 to approximately RMB98.3 million for the nine months ended 30 September 2014, generally due to the increase in sales volume of asphalt mixing plants. The overall gross profit margin from sales of asphalt mixing plants remained stable at approximately 39.9%, 40.1% and 38.7% in 2012, 2013 and the nine months ended 30 September 2014, respectively.

FINANCIAL INFORMATION

The gross profit from sales of Conventional Plants remained stable at approximately RMB107.1 million and RMB102.5 million in 2012 and 2013, respectively. The gross profit from sales of Conventional Plant decreased by approximately RMB22.2 million or 32.8%, from approximately RMB67.7 million for the nine months ended 30 September 2013 to approximately RMB45.5 million for the nine months ended 30 September 2014, generally due to the change in sales volume of Conventional Plants from 29 units for the nine months ended 30 September 2013 to 19 units for the nine months ended 30 September 2014. The gross profit margin from sales of Conventional Plants remained stable at approximately 39.4%, 39.4% and 36.9% in 2012, 2013 and the nine months ended 30 September 2014.

The gross profit from sales 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 sales of Recycling Plants remained stable at approximately 42.3% and 42.1% in 2012 and 2013, respectively. The gross profit from sales of Recycling Plants increased by approximately RMB32.0 million or 152.4%, from approximately RMB20.9 million for the nine months ended 30 September 2013 to approximately RMB52.9 million for the nine months ended 30 September 2014, generally due to the increase in sales volume of Recycling Plants from 8 units in the nine months ended 2013 to 20 units in the nine months ended 2014 due to our business strategy to promote the sales of our Recycling Plant. The gross profit margin from sales of Recycling Plants remained stable at approximately 41.2% and 40.4% for the nine months ended 30 September 2013 and 2014, respectively.

The gross profit margin of sales 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 sales of spare parts and components overseas with higher gross profit margin. The gross profit margin of sales of spare parts and components and provision of equipment modification services remained stable at approximately 43.7% and 45.2% for the nine months ended 30 September 2013 and 2014, respectively.

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 79.4% in 2013 and to 78.5% for the nine months ended 30 September 2014, mainly due to 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.

FINANCIAL INFORMATION

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

Note:

- 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.

FINANCIAL INFORMATION

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		Nine months ended 30 September	
	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)	(Unaudited)
Staff costs	7,442	11,091	8,345	8,910
Distribution fees	9,345	7,018	3,201	7,871
Freight, transportation and postage	8,058	8,967	6,812	5,431
Marketing	3,519	2,750	2,261	1,833
Travelling	2,598	3,044	2,304	2,092
Warranties	928	1,725	1,265	914
Office supplies	560	612	463	535
Rental expense	446	663	417	406
Depreciation	19	8	5	8
Others	366	376	321	193
	<u>33,281</u>	<u>36,254</u>	<u>25,394</u>	<u>28,193</u>

FINANCIAL INFORMATION

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		Nine months ended 30 September	
	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)	(Unaudited)
Staff costs	13,803	14,530	10,692	12,702
Research and development	13,432	13,924	9,441	5,831
Professional fees	3,389	3,791	3,008	4,596
Provisions for bad debts	4,531	10,565	3,424	3,589
Depreciation and amortisation	1,924	2,018	1,470	1,399
Travelling and transportation	2,361	2,190	1,441	1,314
Entertainment	1,531	789	484	257
Office supplies	2,488	3,467	2,065	1,696
Other taxes	985	963	807	863
Rental expense	460	426	287	373
Others	1,839	942	1,206	1,554
	<u>46,743</u>	<u>53,605</u>	<u>34,325</u>	<u>34,174</u>

FINANCIAL INFORMATION

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

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 and 2013 and nine months ended 30 September 2014. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

FINANCIAL INFORMATION

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 BJDG are entitled to preferential income tax at 15% for the years from 2011 to 2013 and 2010 to 2012, respectively. We are in the process of applying for renewal of Langfang D&G’s qualification as a high-technology enterprise from 2014 to 2016. As advised by our PRC legal adviser, there are no legal impediments for Langfang D&G to renew its high-technology enterprise qualification. As such, we expect that Langfang D&G will be able to renew its High-Technology Enterprise qualification and entitled to the preferential income tax rate of 15% for the years from 2014 to 2016. 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		Nine months ended 30 September	
	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)	(Unaudited)
Current tax:				
Provision for PRC income tax for the year/period	12,146	16,959	9,011	12,480
Under-provision in prior year	74	–	–	103
Deferred tax:				
Origination and reversal of temporary differences	(1,782)	(3,297)	(1,753)	(1,794)
	10,438	13,662	7,258	10,789

FINANCIAL INFORMATION

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

The effective tax rate for the year ended 31 December 2012 and 2013 was 17.4% and 15.9% and the effective tax rate for the nine months ended 30 September 2013 and 2014 was 15.5% and 17.5%, respectively.

As at 30 September 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.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

Nine months ended 30 September 2014 compared to nine months ended 30 September 2013

Turnover

Our revenue increased by approximately RMB31.3 million or 11.7% from approximately RMB266.9 million for the nine months ended 30 September 2013 to approximately RMB298.2 million for the nine months ended 30 September 2014, due to an increase in our revenue from each of our three main lines of business for the nine months ended 30 September 2014, namely, sales of our asphalt mixing plants, sales 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 sales of asphalt mixing plants increased by approximately RMB23.4 million or 10.1% from approximately RMB230.6 million for the nine months ended 30 September 2013 to approximately RMB254.0 million for the nine months ended 30 September 2014, mainly due to a significant increase in the revenue of our Recycling Plants of approximately RMB79.9 million, which was partially offset by a decrease in the revenue of our Conventional Plants for the nine months ended 30 September 2014 of approximately RMB56.6 million.

We have recorded a significant increase in our revenue from sales of Recycling Plants by approximately RMB79.9 million or 157.2% from approximately RMB50.8 million for the nine months ended 30 September 2013 to approximately RMB130.7 million for the nine months ended 30 September 2014, mainly due to a significant increase in the number of Recycling Plants sold from 8 units for the nine months ended 30 September 2013 to 20 units for the nine months ended 30 September 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 sales of our Recycling Plants. The average selling price of each of our 2000 model series or below to 4000 model series Recycling Plants remained stable for the nine months ended 30 September 2013 and 2014.

As we sought to promote sales of Recycling Plants, our revenue from sales of Conventional Plants decreased significantly by approximately RMB56.6 million or 31.5% from approximately RMB179.8 million for the nine months ended 30 September 2013 to approximately RMB123.2 million for the nine months ended 30 September 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 27 units for the nine months ended 30 September 2013 to 14 units for the nine months ended 30 September 2014, which was partially offset by an increase in the number of 5000 model series Conventional Plants sold from 2 units for the nine months ended 30 September 2013 to 5 units for the nine months ended 30 September 2014. The average selling price of our 3000 model series and 4000 model series Conventional Plants decreased by approximately 6.8% and 11.1% 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 17.9% in the period, mainly due to the fact that we offered to our customers to maintain our competitiveness in light of the competitive pricing of our competitors. The average selling price of

FINANCIAL INFORMATION

5000 model series Conventional Plants increased by approximately RMB1.7 million or 23.5%, mainly due to sales of two 5000 model series Conventional Plants at a relatively lower selling price for the nine months ended 30 September 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.

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

Our revenue from sales of spare parts and components and provision of equipment modification services increased by approximately RMB2.3 million or 8.8% from approximately RMB26.3 million for the nine months ended 30 September 2013 to approximately RMB28.6 million for the nine months ended 30 September 2014, mainly due to an increase in demand for our spare parts and components and modification services as we sell more asphalt mixing plants.

(iii) Operating lease of our asphalt mixing plants

Our revenue from operating lease of asphalt mixing plants and others increased by approximately RMB5.7 million or 56.2% from approximately RMB10.0 million for the nine months ended 30 September 2013 to approximately RMB15.7 million for the nine months ended 30 September 2014, mainly due to an increase in the number of units leased to our customers from 4 units for the nine months ended 30 September 2013 to 5 units for the nine months ended 30 September 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 RMB15.3 million or 9.6% from approximately RMB159.4 million for the nine months ended 30 September 2013 to approximately RMB174.7 million for the nine months ended 30 September 2014, generally in line with the increase in our revenue. The increase in our cost of sales for the nine months ended 30 September 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 RMB15.1 million or 12.5% from approximately RMB120.6 million for the nine months ended 30 September 2013 to approximately RMB135.7 million for the nine months ended 30 September 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 RMB16.0 million or 14.9% from approximately RMB107.5 million for the nine months ended 30 September 2013 to approximately RMB123.5 million for the nine months ended 30 September 2014.

Our overall gross profit margin from the sale of asphalt mixing plants remained stable at approximately 38.4% and 38.7% for the nine months ended 30 September 2013 and 2014, respectively. The gross profit margin from the sale of Conventional Plants remained stable at approximately 37.6% and 36.9% for the nine months ended 30 September 2013 and 2014,

FINANCIAL INFORMATION

respectively. The gross profit margin from the sale of Recycling Plants remained stable at approximately 41.2% and 40.4% for the nine months ended 30 September 2013 and 2014, respectively.

Other revenue and net income

There is no material fluctuation of the balance of other revenue and net income for the nine months ended 30 September 2014.

Distribution costs

Our distribution costs increased by approximately RMB2.8 million or 11.0% from approximately RMB25.4 million for the nine months ended 30 September 2013 to approximately RMB28.2 million for the nine months ended 30 September 2014, mainly due to the combination of an increase in the staff costs of our sales and marketing staff by approximately RMB0.6 million due to a combination of an increase in wages of our sales and marketing staff, an increase in distribution fees by approximately RMB4.7 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 RMB1.4 million, mainly due to the decrease in the number of units of asphalt mixing plants that we were responsible for delivery for the nine months ended 30 September 2014.

Administrative expenses

Our administrative expenses remained stable for the nine months ended 30 September 2014, mainly due to a combination of an increase in staff costs in the amount of approximately RMB2.0 million as an increase in wages of our staff, a decrease in research and development expenses in the amount of approximately RMB3.6 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 in the amount of approximately RMB1.6 million, mainly due to professional fees incurred for our Listing.

Finance costs

Our finance costs decreased by approximately RMB1.7 million or 61.6% from approximately RMB2.8 million for the nine months ended 30 September 2013 to approximately RMB1.1 million for the nine months ended 30 September 2014, mainly due to a decrease in the amount of interest on loans and borrowings wholly repayable within five years in the amount of approximately RMB0.8 million, the absence of discounted bill interest as we did not discount any bills that we received in the nine months ended 30 September 2014 and the change of a net foreign exchange loss of approximately RMB0.5 million for the nine months ended 30 September 2013 to a net foreign exchange gain of approximately RMB40,000.

Profit before taxation

As a result of the foregoing, our profit before taxation increased by approximately RMB14.8 million or 31.6% from approximately RMB46.8 million for the nine months ended 30 September 2013 to approximately RMB61.5 million for the nine months ended 30 September 2014.

FINANCIAL INFORMATION

Income tax

Our income tax increased by approximately RMB3.5 million or 48.6% from approximately RMB7.3 million for the nine months ended 30 September 2013 to approximately RMB10.8 million for the nine months ended 30 September 2014, mainly due to an increase in our profit before taxation for the nine months ended 30 September 2014.

Profit for the period

Our profit for the year increased by approximately RMB11.2 million or 28.4% from approximately RMB39.5 million for the nine months ended 30 September 2013 to approximately RMB50.7 million for the nine months ended 30 September 2014, as a result of the cumulative effects of the factors described above. Our net profit margin increased from approximately 14.8% for the nine months ended 30 September 2013 to approximately 17.0% for the nine months ended 30 September 2014, mainly due to the decrease in finance costs and the administrative expenses remained stable for the nine months ended 30 September 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, sales of our asphalt mixing plants, sales 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 sales 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 sales 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 sales 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 setting 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.

FINANCIAL INFORMATION

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

Our revenue from sales 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 as we sell more asphalt mixing plants.

(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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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 COMBINED 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 RMB134.2 million as at 31 December 2012 and 2013 and 30 September 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.

FINANCIAL INFORMATION

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

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

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 RMB29.8 million or 28.6% from approximately RMB104.4 million as at 31 December 2013 to RMB134.2 million as at 30 September 2014, mainly due to (i) an increase in raw materials by approximately RMB9.7 million, which was in turn due to an increase in purchase of raw materials, parts and components 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; and (ii) an increase in finished goods by approximately RMB24.0 million, as we had more plants that we have delivered to our customers pending our customers' acceptance or yet to be installed at customers' site as at 30 September 2014, compared to those as at 31 December 2013.

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

	At 31 December		At 30 September
	2012	2013	2014
	Average inventories turnover days (Note)	155	152

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.

FINANCIAL INFORMATION

There has been no material fluctuation between the inventory turnover days as at 31 December 2012 and 2013. Our inventory turnover days increased from approximately 152 days to approximately 186 days mainly due to the same reasons for the changes in the balances of our inventories as stated above.

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

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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 and 2013 and the nine-month ended 30 September 2014, the weighted average discount rate was approximately 6.15% per annum. As at 31 December 2012 and 2013 and 30 September 2014, trade receivables due after one year of RMB5.3 million and RMB11.8 million and RMB15.6 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, mainly due to an increase in sales in 2013 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 trade receivables (net of provision for impairment) increased by approximately RMB56.8 million or 28.3% from approximately RMB200.7 million as at 31 December 2013 to approximately RMB257.5 million as at 30 September 2014, mainly due to an increase in sales in August and September 2014.

FINANCIAL INFORMATION

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

	At 31 December		At 30 September
	2012	2013	2014
	Average trade and bills receivables turnover days	125	153

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 215 days as at 30 September 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		At 30 September
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)
Opening balance	315	4,733	15,122
Impairment losses recognised (<i>note</i>)	4,418	10,389	3,589
Uncollectible amounts written off	–	–	–
Closing balance	4,733	15,122	18,711

Note: including impairment losses provided for amounted to approximately RMB4.4 million, RMB10.4 million and RMB7.8 million and impairment losses reversal amounted to nil, nil and RMB4.2 million, respectively for the years ended 31 December 2012, 2013 and nine months ended 30 September 2014.

FINANCIAL INFORMATION

For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, we provided impairment losses in the amount of approximately RMB4.4 million, RMB10.4 million and RMB7.8 million, respectively, and reversed impairment losses in the amount of nil, nil and RMB4.2 million, respectively. The balances of provision for impairment representing approximately 3.5%, 7.0% and 6.8% of our trade receivables (net of unrecognised interest income), respectively. The increase in impairment losses for the year/period ended 31 December 2013 and 30 September 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 these amounts may still be recoverable 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		At 30 September
	2012	2013	2014
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			(Unaudited)
Neither past due nor impaired	89,575	90,684	148,659
Past due but not impaired:			
Less than 3 months past due	18,332	49,433	49,942
3 to 12 months past due	15,395	39,345	29,107
Over 12 months past due	2,089	4,383	7,256
Total amount past due but not impaired	35,816	93,161	86,305
	125,391	183,845	234,964

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.

FINANCIAL INFORMATION

The following table set forth the subsequent settlements of our trade receivables past due but not impaired as at Latest Practicable Date.

	Collection of balance outstanding					
	At	Subsequent settlement %	At	Subsequent settlement %	At	Subsequent settlement %
	31 December 2012		31 December 2013		30 September 2014	
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
Less than 3 months						
past due	18,332	100.0%	43,996	89.0%	16,525	33.1%
3 to 12 months past due	14,850	96.5%	31,356	79.7%	18,801	64.6%
Over 12 months						
past due	2,089	100.0%	4,383	100.0%	5,708	78.7%
	35,271	98.5%	79,735	85.6%	41,034	47.5%

For the trade receivables past due but not impaired as at 31 December 2012, 31 December 2013 and 30 September 2014, approximately 98.5%, 85.6% and 47.5% of the balances have been subsequently settled as of 31 December 2014, respectively. We are of the view that the remaining outstanding balances can be fully recoverable as those customers participated in PRC government funded road construction or maintenance projects and their delay in payment was mainly due to the slow settlement of government funding for their projects. These customers have been making continuous and gradual repayments and we are not aware of any financial difficulty they have encountered based on our evaluation of impairment loss.

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.

FINANCIAL INFORMATION

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 as at 31 December 2013 and 30 September 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 for 12 months as at 30 September 2014 remained stable at a low level at approximately 3.0% of the total amount of trade receivables compared to approximately 2.4% as of the total amount of trade receivables 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 RMB7.8 million for the year/period ended 31 December 2013 and 30 September 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 of our customers, we are of the view that those overdue trade receivables are recoverable.
5. As at 31 December 2014, 98.5%, 85.6% and 47.5% of trade receivables that were past due but not impaired as at 31 December 2012 and 2013 and 30 September 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 and for the nine months ended 30 September 2014. During the year ended 31 December 2013, bills receivables of approximately RMB21.7 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.

FINANCIAL INFORMATION

Our prepayment increased from approximately RMB11.1 million as at 31 December 2013 to approximately RMB29.6 million as at 30 September 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 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.

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 RMB7.7 million as at 30 September 2014, mainly due to an increase in the amount of deposit paid to custom and bidding 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.

FINANCIAL INFORMATION

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

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

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.

FINANCIAL INFORMATION

There was no material fluctuation in the total balance of trade and bills payable as at 31 December 2012 and 2013. Our trade and bills payable decreased from approximately RMB72.2 million as at 31 December 2013 to approximately RMB65.3 million as at 30 September 2014, mainly due to the combination of a decrease in our trade payables in the amount of approximately RMB13.8 million and an increase in bills payable in the amount of approximately RMB7.0 million as at 30 September 2014, as more trade payables were settled as at 30 September 2014 and we increasingly used bank acceptance notes to settle our payment to our suppliers and subcontractors.

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

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

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

	At 31 December		At 30 September
	2012	2013	2014
	Average trade and bills payable turnover days (<i>Note</i>)	88	109

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 2012 to meet our production demand in 2013. Our trade and bills payable turnover days remained stable at 107 days as at 30 September 2014.

FINANCIAL INFORMATION

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 increased from approximately RMB16.1 million as at 31 December 2013 to approximately RMB23.1 million as at 30 September 2014, mainly due to an increase in amount of deposits received from the sale of asphalt mixing plants as at 31 September 2014.

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 remained stable at approximately RMB11.9 million and RMB9.6 million as at 31 December 2013 and 30 September 2014, respectively.

Payables related to acquisition of non-controlling interests

Payables related to acquisition of non-controlling interests represent the purchase price payable to certain non-controlling equity holders arising from the acquisition of their equity interests in Langfang D&G by DGHK in the amount of approximately RMB115.9 million, which has been paid on 25 November 2014.

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 RMB7.4 million as at 30 September 2014, mainly due to wage increase of our staff.

FINANCIAL INFORMATION

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.

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

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

Amount due to related parties

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

FINANCIAL INFORMATION

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 蔡群力	Controlling Shareholder
Choi Hon Ting 蔡翰霆	Controlling Shareholder
Tin Suen Chu 田瑄珠	Spouse of Controlling Shareholder (Choi Hung Nang)
Tom Liu Jing-zhi 劉敬之	Member of senior management
Lao Kam Chi 劉金枝	Member of senior management
Balama Prima Holdings Ltd. 百萊瑪控股有限公司	Entity controlled by the Controlling Shareholder
Diamond Strong Limited 常剛有限公司	Entity controlled by the Controlling Shareholder
Treasure Merger Holdings Limited 溢豐集團有限公司	Entity controlled by the Controlling Shareholder
Beijing Weilifei Technical Service 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
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

FINANCIAL INFORMATION

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		Nine months ended 30 September	
	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Recurring transactions:				
Rental income from related parties:				
Vermeer Beijing Manufacturing Co., Ltd.	1,828	1,893	1,409	1,475
Vermeer (Beijing) Trading & Service Co., Ltd.	16	33	25	25
Balama Prima Shanghai Equipment Limited	40	-	-	-
	<u>1,884</u>	<u>1,926</u>	<u>1,434</u>	<u>1,500</u>
Rental expense to related parties:				
Choi Hung Nang	184	184	138	138
Diamond Strong Limited	425	417	315	315
Beijing Weilifei Technical Service Company Limited	148	150	113	113
	<u>757</u>	<u>751</u>	<u>566</u>	<u>566</u>
Non-recurring transactions:				
Advance to related parties:				
Choi Kwan Li, Glendy	1,211	-	-	-
	<u>1,211</u>	<u>-</u>	<u>-</u>	<u>-</u>
Repayment of advances to related parties:				
Choi Hung Nang	-	118	118	3,381
Choi Kwan Li, Glendy	-	-	-	2,743
	<u>-</u>	<u>118</u>	<u>118</u>	<u>6,124</u>
Advance from related parties:				
Balama Prima Holdings Ltd.	-	3,255	2,062	1,919
Treasure Merger Holdings Limited	-	-	-	804
Lao Kam Chi	-	24	8	10
Tom Liu Jing-zhi	-	-	-	26
	<u>-</u>	<u>3,279</u>	<u>2,070</u>	<u>2,759</u>
Repayment of advances from related parties:				
Balama Prima Holdings Ltd	-	-	-	2,466
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,466</u>

FINANCIAL INFORMATION

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 from related parties as at the dates indicated:

Amounts due from:

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

Amounts due to:

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

FINANCIAL INFORMATION

The outstanding balances of amounts due from Choi Hung Nang and Choi Kwan Li, Glendy, and the amounts due to Balama Prima Holdings Ltd., Treasure Merger Holdings Limited, Lao Kam Chi and Tom Liu Jing-zhi are unsecured, interest free and have no fixed terms of repayment. Our Directors confirm that these balances 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 combined statements of cash flows as for the periods indicated:

	<u>Year ended 31 December</u>		<u>Nine months ended 30 September</u>	
	<u>2012</u>	<u>2013</u>	<u>2013</u>	<u>2014</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
			(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	32,442	20,085	(15,968)	(65,895)
Net cash (used in)/generated from investing activities	(9,319)	(8,196)	(9,159)	2,691
Net cash (used in)/generated from financing activities	(17,363)	(7,261)	(13,929)	19,506
Net increase/(decrease) in cash and cash equivalents	5,760	4,628	(39,056)	(43,698)
Cash and cash equivalents at 1 January	57,049	62,798	62,798	67,407
Effect of foreign exchange rate changes	(11)	(19)	(14)	4
Cash and cash equivalents at 31 December/30 September	62,798	67,407	23,728	23,713

FINANCIAL INFORMATION

Net cash generated from operating activities

We had net cash used in operating activities of approximately RMB65.9 million in the nine months ended 30 September 2014, which was primarily attributable to (i) a profit before taxation of approximately RMB61.5 million; (ii) adjusted for certain non-cash items, mainly including depreciation of our fixed assets of approximately RMB6.5 million and finance costs of approximately RMB1.1 million; (iii) adjusted for changes in certain working capital items, mainly including an increase in trade and other receivables of approximately RMB84.2 million, mainly due to an increase in trade and bills receivables in the amount of approximately RMB56.3 million, an increase in prepayments in the amount of approximately RMB18.5 million and an increase in other receivables and deposits in the amount of approximately RMB5.6 million, and an increase in inventories of approximately RMB36.0 million. Please refer to the paragraphs headed “Discussion on key items from the combined 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 used in operating activities of approximately RMB16.0 million in the nine months ended 30 September 2013, which was primarily attributable to (i) a profit before taxation of approximately RMB46.8 million; (ii) adjusted for certain non-cash items, mainly including depreciation of our fixed assets of approximately RMB5.7 million and finance costs of approximately RMB2.3 million; (iii) adjusted for changes in certain working capital items, mainly including an increase in trade and other receivables of approximately RMB45.0 million, mainly due to increase in sales and delay in payments from some of our direct customers due to the slow settlement of government fundings for construction or maintenance projects that they participated in, and an increase in inventories of approximately RMB27.8 million, and increase in pledged bank deposits of approximately RMB6.2 million, as partially offset by an increase in trade and other payables of approximately RMB17.0 million.

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 combined 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. Please refer to the paragraphs headed “Discussion on key items from the combined 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.

FINANCIAL INFORMATION

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.

Net cash used in investing activities

We had net cash generated from investing activities of approximately RMB2.7 million in the nine months ended 30 September 2014, mainly due to repayments of advances to related parties of approximately RMB6.1 million as partially offset by payment of purchase of property, plant and equipment of approximately RMB4.8 million, primarily associated with improvement on our manufacturing facilities and gantry cranes.

We had net cash used in investing activities of approximately RMB9.2 million in the nine months ended 30 September 2013, mainly due to payment of purchase of property, plant and equipment of approximately RMB10.0 million, primarily associated with the purchase of gantry cranes.

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 RMB19.5 million in the nine months ended 30 September 2014, mainly due to proceeds from bank loans and borrowings of approximately RMB41.4 million, partially offset by repayments of bank loans and borrowing of approximately RMB21.0 million, interest payments of approximately RMB1.1 million.

We had net cash used in financing activities of approximately RMB13.9 million in the nine months ended 30 September 2013, mainly due to repayments of bank loans and borrowing of approximately RMB34.0 million, as partially offset by proceeds from bank loans and borrowings of approximately RMB20.4 million.

FINANCIAL INFORMATION

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, 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 30 September	As at 30 November
	2012	2013	2014	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)	(Unaudited)
Current assets				
Inventories	94,883	104,365	134,162	108,197
Trade and other receivables	162,013	212,698	286,944	329,418
Pledged bank deposits	12,188	8,516	9,686	8,796
Cash and cash equivalents	62,798	67,407	23,713	16,214
	<u>331,882</u>	<u>392,986</u>	<u>454,505</u>	<u>462,625</u>
Current liabilities				
Loans and borrowings	39,139	31,836	52,235	170,220
Trade and other payables	104,785	111,701	227,501	121,578
Income tax payables	547	7,620	6,634	11,244
	<u>144,471</u>	<u>151,157</u>	<u>286,370</u>	<u>303,042</u>
Net current assets	<u>187,411</u>	<u>241,829</u>	<u>168,135</u>	<u>159,583</u>

FINANCIAL INFORMATION

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 combined 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 RMB73.7 million from approximately RMB241.8 million as at 31 December 2013 to approximately RMB168.1 million as at 30 September 2014, mainly due to (i) an increase in inventories in the amount of approximately RMB29.8 million; (ii) an increase in trade and other receivables in the amount of RMB74.2 million, mainly due to an increase in the trade and bills receivables in the amount of approximately RMB56.3 million; (iii) a decrease in cash and cash equivalents in the amount of approximately RMB43.7 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 RMB20.4 million; (v) an increase in our trade and other payables in the amount of approximately RMB115.8 million, mainly due to the combination of a decrease in the amount of trade and bills payable of the amount of approximately RMB6.8 million, an increase in receipts in advance in the amount of approximately RMB7.0 million, an increase in payable related to acquisition of non-controlling interests in the amount of RMB115.9 million and an increase in accrued staff costs in the amount of approximately RMB2.5 million. Please refer to the paragraphs headed “Discussion on key items from the combined 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 bills receivables and trade and other payables.

There has been no material fluctuation to our net current assets, current assets and current liabilities as at 30 November 2014. Our inventories decreased by approximately RMB26.0 million from approximately RMB134.2 million as at 30 September 2014 to approximately RMB108.2 million as at 30 November 2014, mainly due to the acceptance of two asphalt mixing plants by our customers in November 2014, which results in recognition of revenue. Our trade and other receivables increased by approximately RMB42.5 million from approximately RMB286.9 million as at 30 September 2014 to approximately RMB329.4 million as at 30 November 2014, mainly due to an increase in sales in October and November 2014. Our cash and cash equivalents decreased by

FINANCIAL INFORMATION

approximately RMB7.5 million from approximately RMB23.7 million as at 30 September 2014 to approximately RMB16.2 million as at 30 November 2014, mainly due to the settlement of our trade payables in October and November 2014. As at 30 November 2014, our loans and borrowings increased further to approximately RMB170.2 million mainly due to the Prima DG Shareholder’s Loan and HK\$1.4M Loan incurred in the course of the Reorganisation. Please refer to the section 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” for details of such loans. Our trade and other payables decreased from approximately RMB227.5 million as at 30 September 2014 to approximately RMB121.6 million as at 30 November 2014, mainly due to the settlement of the payables related to acquisition of non-controlling interests in the amount of approximately RMB115.9 million on 25 November 2014.

INDEBTEDNESS

Loans and borrowings

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

	<u>As at 31 December</u>		<u>As at</u> <u>30 September</u>	<u>As at</u> <u>30 November</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
			(Unaudited)	(Unaudited)
Unsecured bank loans	5,139	4,336	4,154	4,055
Secured bank loans	34,000	27,500	16,499	32,000
Loan guaranteed by related parties	–	–	31,582	17,257
Shareholder’s loans	–	–	–	116,908
	<u>39,139</u>	<u>31,836</u>	<u>52,235</u>	<u>170,220</u>

FINANCIAL INFORMATION

- (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 30 September	As at 30 November
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Property, plant and equipment	14,205	13,338	13,150	12,663
Lease prepayments	5,749	5,618	5,520	5,498
	19,954	18,956	18,670	18,161

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 RMB52.2 million as at 30 September 2014, mainly due to 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.

As at 30 November 2014, our loans and borrowings increased further to approximately RMB170.2 million mainly due to the Prima DG Shareholder’s Loan and HK\$1.4M Loan incurred in the course of the Reorganisation. Please refer to the section 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” for details of such loans.

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 and 2013 and 30 September 2014, all of our bank loans and borrowings were repayable within one year or on demand.

Our bank loans and borrowings were secured by our land and building.

As at 30 November 2014, we have obtained credit facilities from three banks, namely, Beijing HSBC, Nanyang Commercial Bank and Industrial Bank and approximately RMB143.7 million of such credit facilities were not drawn.

FINANCIAL INFORMATION

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.

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 30 November 2014, being the latest practicable date for the purpose of this indebtedness statement, the total indebtedness of our Group was approximately RMB\$170.2 million.

We confirm that, other than as disclosed in this document, there had been no material change in our indebtedness from 30 November 2014 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 and 2013, 30 September 2014 and 30 November 2014, our maximum exposure to such guarantees amounted to approximately RMB18.0 million, RMB25.7 million, RMB42.8 million and RMB35.3 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.

FINANCIAL INFORMATION

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. As at 31 December 2013, 30 September 2014 and 30 November 2014, approximately RMB10.5 million, RMB18.0 million and RMB42.0 million of these two facilities in aggregate had been utilised, respectively. As at the Latest Practicable Date, we have not received any demand from these two banks that required us to perform our guarantee obligations. These two guarantees will be released upon 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 – Pre-IPO 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 30 November 2014.

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.

FINANCIAL INFORMATION

CAPITAL EXPENDITURES

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

	<u>Year ended 31 December</u>		<u>Nine months ended 30 September</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
Plant and buildings	–	574	–
Machinery	7,060	9,891	6,813
Motor vehicles	1,437	455	–
Office equipment and furniture	403	364	150
Construction in progress	3,325	6,572	3,225
Total:	<u>12,225</u>	<u>17,856</u>	<u>10,188</u>

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 30 September 2014 and the Latest Practicable Date, we did not incur any material capital expenditure.

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:

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

FINANCIAL INFORMATION

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		At 30 September
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)
Within 1 year	934	928	496
After 1 year but within 5 years	719	247	240
Total:	1,653	1,175	736

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 31 December		As 30 September
	2012	2013	2014
	Current ratio	2.3	2.6
Quick ratio	1.6	1.9	1.1
Net debt-to-equity ratio	N/A	N/A	6.7%
Gearing ratio	14.3%	9.2%	18.7%
			Nine months ended
	Year ended 31 December		30 September
	2012	2013	2014
Return on equity	18.2%	21.0%	18.2%
Return on assets	11.9%	14.6%	9.0%
Net profit margin	13.6%	17.6%	17.0%

FINANCIAL INFORMATION

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 combined 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 combined 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 1.6 times as at 30 September 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 RMB454.5 million as at 30 September 2014, mainly due to (i) an increase in inventories in the amount of approximately RMB29.8 million; (ii) an increase in trade and other receivables in the amount of RMB74.2 million, mainly due to an increase in trade and bills receivables in the amount of approximately RMB56.3 million, an increase in prepayments in the amount of approximately RMB18.5 million and an increase in other receivables and deposits in the amount of approximately RMB5.6 million; (iii) a decrease in cash and cash equivalents in the amount of approximately RMB43.7 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 combined 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

FINANCIAL INFORMATION

approximately RMB286.4 million as at 30 September 2014, mainly due to (i) an increase in the amount of our loans and borrowings in the amount of approximately RMB20.4 million, (ii) an increase in our trade and other payables in the amount of approximately RMB115.8 million, mainly due to the combination of a decrease in the amount of trade and bills payable of the amount of approximately RMB6.8 million, an increase in receipts in advance in the amount of approximately RMB7.0 million, a decrease in accrued expenses and other payables in the amount of RMB2.3 million, an increase in the payable related to acquisitions of non-controlling interests in the amount of approximately RMB115.9 million and an increase in accrued staff costs in the amount of approximately RMB2.5 million. Please refer to the paragraph headed “Discussion on key items from the combined statements of financial position – Trade and other payables” 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 1.1 times as at 30 September 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 gearing ratio is the total amount of our bank 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 6.7% as at 30 September 2014.

Gearing Ratio

Gearing ratio is the total amount of our bank 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 18.7% as at 30 September 2014 was mainly due to (i) an increase in bank loans and borrowings; and (ii) a decrease in total equity as at 30 September 2014 as a result of the acquisition of non-controlling interests.

FINANCIAL INFORMATION

Return on Equity

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

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 decreased from approximately 21.0% in 2013 to approximately 18.2% in the nine months ended 30 September 2014, mainly due to (i) the fact that our profit for the determination of return on equity for the nine months ended 30 September 2014 is for nine months only and (ii) a decrease in total equity as at 30 September 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/period.

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 decreased from approximately 14.6% in 2013 to approximately 9.0% in the nine months ended 30 September 2014, mainly due to the fact that our profit for the determination of return on equity for the nine months ended 30 September 2014 is for nine months only.

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 for the nine months ended 30 September 2014 remained stable at approximately 17.0%.

FINANCIAL INFORMATION

WORKING CAPITAL

Our Directors believe that after taking into account the financial resources presently available to us, including cash flow from operations, banking facilities, 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 combined 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 and 2013 and 30 September 2014, 7%, 5% and 4% of the total trade and bills receivables was due from the Group’s largest customer and 29%, 20% and 16% 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.

FINANCIAL INFORMATION

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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

FINANCIAL INFORMATION

At 30 September 2014 (Unaudited)

	Contractual undiscounted cash outflow			Balance sheet carrying amount
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loans and borrowings	52,555	–	52,555	52,235
Trade and other payables	227,501	–	227,501	227,501
	<u>280,056</u>	<u>–</u>	<u>280,056</u>	<u>279,736</u>

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 30 September 2014, respectively. The interest rates at our interest-bearing borrowings as at 31 December 2012 and 2013 and 30 September 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 combined 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 30 September 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 RMB162,000, 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.

FINANCIAL INFORMATION

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

FINANCIAL INFORMATION

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:

	<u>Year ended</u> <u>31 December 2012</u>		<u>Year ended</u> <u>31 December 2013</u>		<u>Nine months ended</u> <u>30 September 2014</u> (unaudited)	
	<u>Increase/ decrease</u> <u>in</u> <u>foreign</u> <u>exchange</u> <u>rates</u>	<u>Effect on</u> <u>profit</u> <u>after</u> <u>taxation</u>	<u>Increase/ decrease</u> <u>in</u> <u>foreign</u> <u>exchange</u> <u>rates</u>	<u>Effect on</u> <u>profit</u> <u>after</u> <u>taxation</u>	<u>Increase/ decrease</u> <u>in</u> <u>foreign</u> <u>exchange</u> <u>rates</u>	<u>Effect on</u> <u>profit</u> <u>after</u> <u>taxation</u>
		<i>RMB’000</i>		<i>RMB’000</i>		<i>RMB’000</i>
USD	5%	(271)	5%	295	5%	273
	-5%	271	-5%	(295)	-5%	(273)
EUR	5%	132	5%	135	5%	68
	-5%	(132)	-5%	(135)	-5%	(68)
AUD	5%	(147)	5%	6	5%	1
	-5%	147	-5%	(6)	-5%	(1)

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

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

FINANCIAL INFORMATION

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 COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted combined 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 combined net tangible assets of the Group attributable to the equity holders of the Company as at 30 September 2014, as if the [REDACTED] had taken place on 30 September 2014.

The pro forma statement of adjusted combined 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 30 September 2014 or at any future date.

	Combined net tangible assets of the Group attributable to the equity holders of the Company as of 30 September 2014	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted combined net tangible assets attributable to the equity holders of the Company	Unaudited pro forma adjusted combined net tangible assets attributable to the equity holders of the Company per share	
	<i>Note 1</i> RMB'000	<i>Note 2</i> RMB'000	RMB'000	<i>Note 3</i> (RMB)	<i>Note 4</i> (HK\$)
Based on the [REDACTED] of [REDACTED] for each Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on the [REDACTED] of [REDACTED] for each Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The combined net tangible assets of the Group attributable to equity holders of the Company as at [30 September 2014] is based on the Group's combined 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.

FINANCIAL INFORMATION

- (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] million and approximately RMB[REDACTED] million respectively (excluding approximately RMB3.7 million listing expenses which have been accounted for prior to 30 September 2014) and does not take into account any shares which may be issued upon the exercise of the [REDACTED].
- (3) The unaudited pro forma adjusted combined net tangible assets per Share are arrived after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] shares are expected to be in issue following the [REDACTED] and the respective [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per share, but do not take into account any shares which may be issued upon the exercise of the [REDACTED].
- (4) The estimated net proceeds from the [REDACTED] are converted into Renminbi at the People’s Bank of China (the “PBOC”) rate of [HK\$1.00 to RMB0.7889]. 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.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to [30 September 2014].

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. There were no reserves available for distribution to equity shareholders as at 30 September 2014.

LISTING EXPENSES

We incurred approximately RMB3.7 million of listing expenses during the Track Record Period, among which RMB0.9 million was recorded as prepayments and RMB2.8million was recorded as expenses. We expect to incur approximately an additional RMB27.9 million in listing expenses after the Track Record Period, of which approximately RMB14.3 million will be recognised as expenses in the consolidated statements of profit or loss and other comprehensive income for the three months ended 31 December 2014 and 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 30 September 2014 and no event had occurred since 30 September 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.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the sections headed “Business – Our Business Strategies” in this document for further information regarding our future plans.

PROPOSED USE OF NET PROCEEDS FROM THE [REDACTED]

We estimate that the aggregate net proceeds from the [REDACTED] (after deducting underwriting fees and estimated expenses payable by us in connection with the [REDACTED]), assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the proposed [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per Share, will be approximately [REDACTED].

We currently intend to apply these net proceeds for the following purposes:

- approximately [REDACTED] or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) will be used to finance the expansion of our manufacturing facilities to increase our production capacity to over 80 units of asphalt mixing plants per year, of which:
 - approximately [REDACTED] or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) will be used for the acquisition of land;
 - approximately [REDACTED] or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) will be used to finance the development and construction of the manufacturing facilities; and
 - approximately [REDACTED] or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) will be used for the purchase of equipment for the manufacturing facilities;
- approximately [REDACTED] or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) will be used to fund our research and development activities, including the upgrades on computer software and hardware and investment in research and development projects;
- approximately [REDACTED] or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) will be used to finance the development of our new businesses, including the manufacturing components of asphalt mixing plants and asphalt mixtures for sale;
- approximately [REDACTED] or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) will be used to fund the expansion of our sales and distribution networks, including increasing the head counts of our sales personnel and setting up overseas service centres, as well as promotional activities;

FUTURE PLANS AND USE OF PROCEEDS

- approximately [REDACTED] or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) will be used for working capital and other general corporate purposes.

To the extent that the net proceeds from the [REDACTED] are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and bank financing. We currently believe that the net proceeds from the [REDACTED], when combined with such alternate sources of financing, are sufficient for the uses set forth above.

If the [REDACTED] is finally determined at HK\$[REDACTED] per [REDACTED], being the high-end of the stated [REDACTED], the net proceeds will be increased by approximately HK\$[REDACTED] million. If the [REDACTED] is finally determined at HK\$[REDACTED] per [REDACTED], being the low end of the stated [REDACTED], the net proceeds will be reduced by approximately HK\$[REDACTED] million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

In the event that the [REDACTED] is exercised in full and based on the mid-point of the indicative [REDACTED], we estimate that we will receive additional net proceeds from the [REDACTED] of HK\$[REDACTED] million, deducting underwriting fees and estimated expenses payable by us. The additional proceeds received from the exercise of the [REDACTED] will be applied pro rata to the abovementioned purposes.

To the extent that the net proceeds from the [REDACTED] are not immediately applied for the above purposes, we will deposit the net proceeds into interest-bearing bank accounts. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

UNDERWRITING

HONG KONG UNDERWRITERS

Sole Global Coordinator

[REDACTED]

Joint Bookrunners and Joint Lead Managers

[REDACTED]

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreements

The Hong Kong [REDACTED] is fully underwritten by the Hong Kong Underwriters and the [REDACTED] is expected to be fully underwritten by the International Underwriters, in each case on a several basis. The Hong Kong Underwriting Agreement was entered into on [●], [●] 2015 and, subject to an agreement being reached on the [REDACTED] between us and the [REDACTED] (on behalf of the Underwriters), the International Underwriting Agreement is expected to be entered into on or about [REDACTED]. The Hong Kong Underwriting Agreement is conditional upon (among other things) the International Underwriting Agreement being entered into and having become effective, and the respective Underwriting Agreements are expected to be inter-conditional. See the section headed “Structure of the Global Offering”.

Hong Kong Underwriting Agreement

Subject to the Listing Committee granting listing of, and permission to deal in, our Shares in issue and our Shares to be issued as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe for or procure subscribers to subscribe for, their respective applicable proportions of the Hong Kong [REDACTED] on the terms and subject to the conditions of this document, the [REDACTED] and the Hong Kong Underwriting Agreement. The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, the [REDACTED] are subject to termination.

UNDERWRITING

Grounds for termination by the Hong Kong Underwriters

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

Restrictions and undertakings to the Stock Exchange pursuant to the Listing Rules

Restrictions imposed on our Company

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or other securities convertible into equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except in the circumstances prescribed by Rule 10.08 of the Listing Rules.

UNDERWRITING

Restrictions imposed on and undertakings by our Controlling Shareholders

[REDACTED]

UNDERWRITING

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Under the Hong Kong Underwriting Agreement, our Company has agreed and undertaken with each of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters that, except pursuant to the [REDACTED] (including pursuant to the [REDACTED]) or the Capitalisation Issue, it will not, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of the First Six-month Period:

[REDACTED]

UNDERWRITING

Undertaking by our Controlling Shareholders

[REDACTED]

UNDERWRITING

[REDACTED]

Commissions and Expenses

Under the terms and conditions of the Underwriting Agreements, our Company has agreed to pay: (i) the Joint Bookrunners (for the account of the Underwriters) a gross commission equal to [2.75]% of the aggregate [REDACTED] for all the [REDACTED] offered under the [REDACTED] (including Shares to be issued pursuant to the [REDACTED]); and (ii) the Joint Bookrunners an additional incentive fee (payable at the sole discretion of our Company) of such amount to be determined by our Company on or before the [REDACTED].

The aggregate commissions and estimated expenses, together with the Stock Exchange trading fee, SFC transaction levy, Stock Exchange listing fee, legal and other professional fees, printing and other fees and expenses relating to the [REDACTED], are estimated to amount in aggregate to approximately HK\$[40.0] million (assuming the [REDACTED] is not exercised and an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the stated range of the [REDACTED] between HK\$[REDACTED] and HK\$[REDACTED] per Share).

UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for their obligations under the relevant Underwriting Agreement(s) or as otherwise disclosed in this document, none of the Underwriters owns any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares or securities in our Company or any member of our Group.

UNDERWRITING

INTERNATIONAL UNDERWRITING AGREEMENT

In connection with the [REDACTED], it is expected that we will, on or about [●], [●] 2015 shortly after determination of the [REDACTED], enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters to be named therein would severally agree to purchase the International [REDACTED] or procure purchasers for the International [REDACTED] Shares. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the [REDACTED] will not proceed. Under the International Underwriting Agreement, we intend to grant to the International Underwriters the [REDACTED], exercisable by the Sole Global Coordinator on behalf of the International Underwriters at the sole and absolute discretion of the Sole Global Coordinator for up to 30 days after the last day for lodging applications under the Hong Kong [REDACTED], to require us to issue and allot up to an aggregate of [REDACTED] additional Shares representing, in aggregate, 15% of the [REDACTED] initially available under the [REDACTED]. These Shares will be sold at the [REDACTED] and will be, among others, for the purpose of covering over-allocations in the [REDACTED], if any.

SOLE SPONSOR’S INDEPENDENCE

BOCOM International (Asia) has declared its independence from us pursuant to Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

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



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

[●]

The Directors
D&G Technology Holding Company Limited

BOCOM International (Asia) Limited

Dear Sirs,

INTRODUCTION

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

The Company was incorporated in the Cayman Islands on 11 September 2014 as an exempted company with limited liability under the Companies Law, (Cap.22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 31 December 2014, pursuant to the completion of various steps of a group reorganisation (the “**Reorganisation**”) as detailed in the section headed “History, Reorganisation and Corporate Structure” in the Document, the Company became the holding company of the companies now comprising the Group, details of which are set out in note 1(b) of Section B below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

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

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL INFORMATION

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

REPORTING ACCOUNTANTS’ RESPONSIBILITY

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

OPINION

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

UNAUDITED INTERIM FINANCIAL INFORMATION

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

A COMBINED FINANCIAL INFORMATION OF THE GROUP

1 Combined statements of profit or loss and other comprehensive income

(Expressed in Renminbi Yuan)

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

The accompanying notes form part of the Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

2 Combined statements of financial position

(Expressed in Renminbi Yuan)

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

The accompanying notes form part of the Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

3 Combined statements of changes in equity

(Expressed in Renminbi Yuan)

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

The accompanying notes form part of the Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

4 Combined cash flow statements

(Expressed in Renminbi Yuan)

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

The accompanying notes form part of the Financial Information.

B NOTES TO COMBINED FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

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

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

(b) Basis of preparation and presentation

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

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

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

(c) Basis of measurement

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

(d) Use of estimates and judgments

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

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

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

(e) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

(f) Business combinations involving entities under common control

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

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

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

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

(g) Associates and joint ventures

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

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

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

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

(h) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group’s previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree’s identifiable assets and liabilities measured as at the acquisition date.

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

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

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

(i) Investment property

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

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

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

(j) Property, plant and equipment

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

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

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

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

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

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

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

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

(k) Intangible assets

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

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

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

(l) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Lease prepayments

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

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

(iii) Operating lease charges

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

(m) **Impairment of assets**

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

(ii) *Impairment of other assets*

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

- property, plant and equipment;
- investment properties;
- lease prepayments;
- intangible assets;
- goodwill; and
- investments in subsidiaries, associates and joint venture.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(n) **Inventories**

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

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

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

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

(o) Trade and other receivables

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

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(r) Cash and cash equivalents

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

(s) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plan

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

(t) Income tax

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

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

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

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

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

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Financial guarantee issued, provisions and contingent liabilities

(i) Financial guarantee issued

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

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of

such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

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

(ii) *Other provision and contingent liabilities*

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

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

(v) **Revenue recognition**

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

(i) *Sale of goods*

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

(ii) *Services income*

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

(iii) *Rental income from operating leases*

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

(iv) *Interest income*

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

(v) *Government grants*

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

APPENDIX I

ACCOUNTANTS’ REPORT

(w) Translation of foreign currencies

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

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

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

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

(x) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group’s parent.

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(y) Segment reporting

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

(i) *Recognition of income taxes and deferred tax assets*

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

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) *Impairment of trade receivables*

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

(ii) *Warranty provisions*

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

(iii) *Net realisable value of inventories*

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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

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

(b) Segment reporting

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

(i) Information about geographical area

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

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

(ii) Information about major customers

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

APPENDIX I

ACCOUNTANTS’ REPORT

4 OTHER REVENUE AND NET INCOME

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

(a) Government grants

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

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

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

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Staff costs

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

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

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

(c) Other items

	Years ended 31 December		Nine months ended 30 September	
	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Depreciation				
– assets held for use under operating leases	1,786	2,779	1,744	2,577
– other assets	5,059	5,181	3,985	3,937
	<u>6,845</u>	<u>7,960</u>	<u>5,729</u>	<u>6,514</u>
Amortisation				
– lease prepayments	200	200	150	150
– intangible assets	108	225	162	166
	<u>308</u>	<u>425</u>	<u>312</u>	<u>316</u>
Operating lease charges	900	1,425	784	678
Product warranty costs	978	1,749	1,265	914
Research and development costs	13,432	13,924	9,411	5,831
Impairment losses of trade receivables	4,418	10,389	3,219	3,589
Auditors’ remuneration	1,671	1,468	1,331	1,870
Cost of inventories [#]	209,027	234,577	156,406	171,332
	<u>230,830</u>	<u>286,768</u>	<u>181,517</u>	<u>187,527</u>

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

APPENDIX I

ACCOUNTANTS’ REPORT

6 INCOME TAX

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

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

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

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

- (ii) According to the PRC Enterprise Income Tax Law and its relevant regulations, entities that are qualified as high-technology enterprises under the tax law are entitled to a preferential income tax rate of 15%. The Company’s subsidiaries, LFDG and BJDG, obtained the approvals of high-technology enterprises in the year 2011 and 2010, respectively. Accordingly, LFDG and BJDG were entitled to preferential income tax at 15% for the years from 2011 to 2013 and 2010 to 2012, respectively. BJDG has further obtained the renewal of such qualification in 2013, and is entitled to preferential income tax rate at 15% for the years from 2013 to 2015. Currently, LFDG is in the progress of applying for renewal of its qualification as a high-technology enterprise from 2014 to 2016. LFDG has received a confirmation letter from the office of the Leading Group on the Administration of the Recognition of High-Technology Enterprise in Hebei Province dated 31 December 2014 confirming that their renewal application has been approved by expert assessment. As such, management expect that LFDG will be able to renew its High-Technology Enterprise qualification and entitled to the preferential income tax rate of 15% for the years from 2014 to 2016.
- (iii) Under the PRC Enterprise Income Tax Law and its relevant regulations, a 50% additional tax deduction is allowed for qualified research and development expenses.

7 DIRECTORS’ REMUNERATION

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

Year ended 31 December 2012					
Director’s fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total	
RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	
Executive directors					
Mr. Choi Hung Nang	-	-	-	-	-
Mr. Choi Hon Ting, Derek	-	-	-	-	-
Ms. Choi Kwan Li, Glendy	-	300	-	-	300
Mr. Tom Liu Jing-zhi	-	245	-	-	245
Mr. Yu Ronghua	-	213	-	67	280
Mr. Lao Kam Chi	-	249	-	-	249
	-	1,007	-	67	1,074
Year ended 31 December 2013					
Director’s fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total	
RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	
Executive directors					
Mr. Choi Hung Nang	-	-	-	-	-
Mr. Choi Hon Ting, Derek	-	-	-	-	-
Ms. Choi Kwan Li, Glendy	-	293	-	-	293
Mr. Tom Liu Jing-zhi	-	248	-	-	248
Mr. Yu Ronghua	-	204	-	72	276
Mr. Lao Kam Chi	-	311	-	-	311
	-	1,056	-	72	1,128

APPENDIX I

ACCOUNTANTS’ REPORT

Nine months ended 30 September 2013 (Unaudited)

	Director’s fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Executive directors					
Mr. Choi Hung Nang	-	-	-	-	-
Mr. Choi Hon Ting, Derek	-	-	-	-	-
Ms. Choi Kwan Li, Glendy	-	225	-	-	225
Mr. Tom Liu Jing-zhi	-	193	-	-	193
Mr. Yu Ronghua	-	153	-	55	208
Mr. Lao Kam Chi	-	240	-	-	240
	-	811	-	55	866

Nine months ended 30 September 2014 (Unaudited)

	Director’s fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Executive directors					
Mr. Choi Hung Nang	-	-	-	-	-
Mr. Choi Hon Ting, Derek	-	-	-	-	-
Ms. Choi Kwan Li, Glendy	-	218	-	-	218
Mr. Tom Liu Jing-zhi	-	275	-	-	275
Mr. Yu Ronghua	-	153	-	56	209
Mr. Lao Kam Chi	-	240	-	-	240
	-	886	-	56	942

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

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

9 EARNINGS PER SHARE

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

APPENDIX I

ACCOUNTANTS’ REPORT

10 PROPERTY, PLANT AND EQUIPMENT

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

APPENDIX I

ACCOUNTANTS’ REPORT

- (a) Property, plant and equipment with net book value of RMB14,205,000, RMB13,338,000 and RMB13,150,000 (unaudited) as at 31 December 2012, 2013 and 30 September 2014, respectively, have been pledged as security for bank loans (see note 17(a)(i)).
- (b) The Group leases out certain sets of asphalt mixing machineries under operating leases. The leases typically run for an initial period of 4 to 16 months, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

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

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

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

11 INVESTMENT PROPERTIES

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

12 LEASE PREPAYMENTS

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

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

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

13 INVENTORIES

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

14 TRADE AND OTHER RECEIVABLES

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

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

(a) **Payment terms of trade receivables**

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

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Ageing analysis

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

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

(c) Impairment of trade receivables

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

(d) Trade receivables that are not impaired:

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

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

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

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

(e) Bills receivables

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

15 PLEDGED BANK DEPOSITS

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

16 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

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

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

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

APPENDIX I

ACCOUNTANTS' REPORT

17 LOANS AND BORROWINGS

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

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

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

18 TRADE AND OTHER PAYABLES

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

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

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

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

(ii) Product warranty provision

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

19 INCOME TAX IN THE COMBINED STATEMENTS OF FINANCIAL POSITION

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

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

(b) Deferred tax assets and liabilities recognised:

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

(c) **Deferred tax liabilities not recognised:**

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

20 SHARE CAPITAL

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

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

21 RESERVES

(a) **Capital reserves**

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

(b) **PRC statutory reserves**

Statutory general reserve

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

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

Specific reserve for maintenance and production funds

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

APPENDIX I

ACCOUNTANTS’ REPORT

(c) Exchange reserve

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

(d) Distributable reserve

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

(e) Capital risk management

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

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

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

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

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

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

(f) **Acquisition of non-controlling interests in LFDG**

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

22 WRITTEN PUT OPTIONS TO CERTAIN NON-CONTROLLING EQUITY HOLDERS

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

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

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

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

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

- credit risk
- liquidity risk
- interest rate risk
- foreign currency risk

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

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

(a) Credit risk

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

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

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

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

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

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

(b) Liquidity risk

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

At 31 December 2012				
Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Balance sheet carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loans and borrowings	40,564	–	40,564	39,139
Trade and other payables	104,785	–	104,785	104,785
	<u>145,349</u>	<u>–</u>	<u>145,349</u>	<u>143,924</u>
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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loans and borrowings	33,651	–	33,651	31,836
Trade and other payables	111,701	–	111,701	111,701
	<u>145,352</u>	<u>–</u>	<u>145,352</u>	<u>143,537</u>
At 30 September 2014 (unaudited)				
Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Balance sheet carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loans and borrowings	52,555	–	52,555	52,235
Trade and other payables	227,501	–	227,501	227,501
	<u>280,056</u>	<u>–</u>	<u>280,056</u>	<u>279,736</u>

APPENDIX I

ACCOUNTANTS’ REPORT

(c) Interest rate risk

(i) Interest rate profile

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

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

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

(ii) Sensitivity analysis

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

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

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

(d) Foreign currency risk

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

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

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

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

(e) Fair values

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

APPENDIX I

ACCOUNTANTS’ REPORT

24 COMMITMENTS

(a) Capital commitments

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

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

(b) Operating lease commitments

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

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

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i> (unaudited)
Within 1 year	934	928	496
After 1 year but within 5 years	719	247	240
	<u>1,653</u>	<u>1,175</u>	<u>736</u>

25 CONTINGENT LIABILITIES

(a) Financial guarantee issued

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

26 MATERIAL RELATED PARTY TRANSACTIONS

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

(a) Transactions with related parties

	Years ended 31 December		Nine months ended 30 September	
	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Recurring transactions:				
Rental income from related parties:				
Vermeer Beijing Manufacturing Company Limited	1,828	1,893	1,409	1,475
Vermeer (Beijing) Trading & Service Company Limited	16	33	25	25
Balama Prima Shanghai Equipment Limited	40	–	–	–
	<u>1,884</u>	<u>1,926</u>	<u>1,434</u>	<u>1,500</u>
Rental expense to related parties:				
Choi Hung Nang	184	184	138	138
Diamond Strong Limited	425	417	315	315
Beijing Weilifei Technical Service Company Limited	148	150	113	113
	<u>757</u>	<u>751</u>	<u>566</u>	<u>566</u>
Non-recurring transactions:				
Advance to related parties:				
Choi Kwan Li, Glendy	1,211	–	–	–
	<u>1,211</u>	<u>–</u>	<u>–</u>	<u>–</u>
Repayment of advances to related parties:				
Choi Hung Nang	–	118	118	3,381
Choi Kwan Li, Glendy	–	–	–	2,743
	<u>–</u>	<u>118</u>	<u>118</u>	<u>6,124</u>
Advance from related parties:				
Balama Prima Holdings Ltd.	–	3,255	2,062	1,919
Treasure Merger Holdings Limited	–	–	–	804
Lao Kam Chi	–	24	8	10
Tom Liu Jing-zhi	–	–	–	26
	<u>–</u>	<u>3,279</u>	<u>2,070</u>	<u>2,759</u>
Repayment of advances from related parties:				
Balama Prima Holdings Ltd	–	–	–	2,466
	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,466</u>

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

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Balances with related parties

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

Amounts due from:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i> (Unaudited)
– Choi Hung Nang	3,581	3,354	–
– Choi Kwan Li, Glendy	2,806	2,722	–
	<u>6,387</u>	<u>6,076</u>	<u>–</u>

Amounts due to:

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

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

(c) Guarantees issued by the Group

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

(d) Guarantees issued by related parties

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

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

(e) Key management personnel remuneration

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

27 LIST OF AUDITORS OF THE SUBSIDIARIES

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

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

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

C SUBSEQUENT EVENTS

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

(a) Group reorganisation

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

(b) Shareholder’s loans

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

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

APPENDIX I

ACCOUNTANTS' REPORT

D FINANCIAL INFORMATION OF THE COMPANY

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

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

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

E SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

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

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the accountants’ report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Document, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this Document and the accountants’ report set forth in Appendix I to this document.

A UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted combined net tangible assets of D&G Technology Holding Company Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) is prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out below to illustrate the effect of the [REDACTED] by the Company of its shares (the “[REDACTED]”) on the combined net tangible assets of the Group attributable to the equity holders of the Company as at [30 September 2014], as if the [REDACTED] had taken place on [30 September 2014].

The pro forma statement of adjusted combined 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 [30 September 2014] or at any future date.

	Combined net tangible assets of the Group attributable to the equity holders of the Company as of 30 September 2014	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted combined net tangible assets attributable to the equity holders of the Company	Unaudited pro forma adjusted combined net tangible assets attributable to the equity holders of the Company per share	
	<i>Note 1</i>	<i>Note 2</i>		<i>Note 3</i>	<i>Note 4</i>
	RMB’000	RMB’000	RMB’000	(RMB)	(HK\$)
Based on the [REDACTED] of HK\$[REDACTED] for each Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on the [REDACTED] of HK\$[REDACTED] for each Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The combined net tangible assets of the Group attributable to the equity holders of the Company as at [30 September 2014] is based on the Group’s combined 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.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (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] million and approximately RMB[REDACTED] million respectively (excluding approximately RMB3.7 million listing expenses which have been accounted for prior to 30 September 2014) and does not take into account any shares which may be issued upon the exercise of the [REDACTED].
- (3) The unaudited pro forma adjusted combined net tangible assets per Share are arrived after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] shares are expected to be in issue following the [REDACTED] and the respective [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per share, but do not take into account any shares which may be issued upon the exercise of the [REDACTED].
- (4) The estimated net proceeds from the [REDACTED] are converted into Renminbi at the People’s Bank of China (the “PBOC”) rate of [HK\$1.00 to RMB0.7889]. 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.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to [30 September 2014].

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 September 2014 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). The Memorandum of Association (the "**Memorandum**") and the Articles of Association (the "**Articles**") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on [●] 2015 to take effect on the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of our Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of our Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and our Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

The undertaking for the Company is for a period of twenty years from 30 September 2014.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company and registration under Part 16 of the Companies Ordinance

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 11 September 2014.

Our Company was duly registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company on 31 December 2014. Our principal place of business in Hong Kong for the purpose of registration under Part 16 of the Companies Ordinance is at 7th Floor, Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong. In compliance with the requirements of the Companies Ordinance, Ms. Glendy Choi has been appointed as the agent for the acceptance of service of process and any notice required to be served on our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant laws and regulations of the Cayman Islands and to its constitution which comprises the Memorandum of Association and the Articles of Association. A summary of certain parts of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this document.

2. Changes in the authorised and issued share capital of our Company

- (a) As at the date of incorporation of our Company on 11 September 2014, its authorised share capital was HK\$10,000 divided into 1,000,000 Shares with a par value of HK\$0.01 each. On 11 September 2014, one subscriber’s Share was allotted and issued for cash at par to the subscriber. On the same day, such subscriber’s Share was transferred to BVI-Prima DG.
- (b) On 11 September 2014, our Company allotted and issued at par an aggregate of 7,199,300, 200 and 200 fully-paid Shares to BVI-Prima DG, BVI-Zacks Vroom, BVI-Fair Silver and BVI-Denmike, respectively.
- (c) Pursuant to the resolutions of our Board dated 31 December 2014, our Company allotted and issued an aggregate of 300 fully-paid Shares to BVI-Wonderful, 100 fully-paid Shares to BVI-DY and 100 fully-paid Shares to BVI-Decai at a consideration of RMB4,680,000, RMB1,560,000 and RMB1,560,000, respectively.
- (d) Pursuant to the resolutions passed by our Shareholders on [●] 2015, the authorised share capital of our Company was increased from HK\$10,000 to HK\$[20,000,000] by the creation of [1,999,000,000] Shares to rank pari passu with the then existing Shares in all respects.
- (e) Pursuant to the resolutions passed by our Shareholders on [●] 2015, an aggregate of [377,991,600] Shares will be allotted and issued on the Listing Date under the Capitalisation Issue to the holders of the Shares whose names appear on the register of members of our Company as at the date of this document.

- (f) Pursuant to the resolutions of our Board dated [●] 2015, our Company will allot and issue an aggregate of [52,260,000] and [19,740,000] fully-paid Shares to Regal Sky and BVI-Prima DG respectively on the Listing Date in full repayment of the Prima DG Shareholder's Loan, the HK\$1.4M Loan and the Diamond Strong Loan.

Immediately following completion of the [REDACTED], capitalisation of the Loans and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme, [REDACTED] Shares will be issued fully paid or credited as fully paid and [REDACTED] Shares will remain unissued.

Other than pursuant to the options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as aforesaid, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing passed by our Shareholders on [●] 2015

Pursuant to the written resolutions passed by our Shareholders on [●] 2015, among others:

- (a) the authorised share capital of our Company was increased from HK\$10,000 to HK\$[20,000,000] by the creation of [1,999,000,000] Shares to rank pari passu with the then existing Shares in all respects;
- (b) our Company approved and conditionally adopted the Articles of Association which will become effective on the Listing Date;
- (c) conditional on the share premium account of our Company being credited as a result of the [REDACTED], the Capitalisation Issue was approved, and our Directors were authorised to capitalise and apply an aggregate amount of HK\$[REDACTED] standing to the credit of our Company's share premium, to pay up in full at par [377,991,600] Shares for allotment and issuance to the holders of Shares whose names appear on the register of members of our Company as at [●] 2015, each ranking pari passu in all respects with the then existing issued Shares and the Shares to be issued pursuant to the Capitalisation of the Loans, and our Directors were authorised to give effect to such capitalisation;
- (d) our Directors were authorised to capitalise in full the Prima DG Shareholder's Loan, the HK\$1.4M Loan and the Diamond Strong Loan due from our Company to BVI-Prima DG by the allotment and issue of [REDACTED] Shares to Regal Sky and [REDACTED] Shares to BVI-Prima DG on the Listing Date, each ranking pari passu in all respects with the existing issued Shares and the Shares to be issued pursuant to the Capitalisation Issue, and our Directors were authorised to give effect to such capitalisation;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (e) conditional on (i) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in issue and to be issued as mentioned in this document, and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of this document:
- (i) the [REDACTED] and the [REDACTED] were approved and our Directors were authorised to allot and issue the [REDACTED] and the Shares as may be required to be allotted and issued if the [REDACTED] is exercised;
- (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Other Information – 16. Share Option Scheme” of this Appendix, were approved and adopted and that our Directors were authorised to implement the same, to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme;
- (f) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or to grant securities which would or might require Shares to be allotted and issued), otherwise than by way of rights issue, or scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or grant of options under the Share Option Scheme, or which have may be granted under the Share Option Scheme, or any other share option scheme or similar arrangement for the time being adopted, or any issue of Shares upon exercise of rights of subscription or conversion attaching to warrants of our Company of any securities (if any) which are convertible into Shares, or under the [REDACTED] or the exercise of the [REDACTED], or pursuant to a specific authority granted by the Shareholders in general meeting, Shares with an aggregate nominal amount of not exceeding the sum of:
- (i) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the [REDACTED] (excluding the Shares which may be issued pursuant to the exercise of the [REDACTED] or the exercise of any options that may be granted under the Share Option Scheme); and
- (ii) the aggregate nominal amount of the share capital of our Company repurchased by our Company pursuant to the authority granted to our Directors as referred to in paragraph (f) below,

until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders of our Company revoking or varying the authority given to our Directors, whichever occurs first;

- (g) a general unconditional mandate (“**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange and/or on any other stock exchange on which the securities of our Company are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following completion of the [REDACTED] (excluding the Shares which may be issued pursuant to the exercise of the [REDACTED] or that may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (h) the general unconditional mandate granted to our Directors pursuant to paragraph (e) above be extended by the aggregate nominal value of share capital of our Company repurchased pursuant to the Repurchase Mandate.

4. Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group’s structure in preparation for the Listing. For information relating to the Reorganisation, please refer to the section headed “History, Reorganisation and Corporate Structure” in this document.

5. Changes in the share capital of the subsidiaries of our Company

The subsidiaries of our Company are listed in the Accountants’ Report, the text of which is set out in Appendix I to this document. Save as disclosed below and in the section headed “History, Reorganisation and Corporate Structure” in this document, no other alteration in the share capital of each of our Company’s subsidiaries took place within two years immediately preceding the date of this document.

Rich Benefit

At the date of incorporation on 23 May 2014, Rich Benefit was authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each, of which 100 shares were issued on 25 June 2014.

BW Enterprise

As part of the Reorganisation, on 1 December 2014, BW Enterprise allotted and issued one fully-paid ordinary share and bought-back an aggregate of 30,000,000 fully-paid ordinary shares which were then cancelled on the same day. After the share buy-back on 2 December 2014, the share capital of BW Enterprise became HK\$30,000,000 comprising one fully-paid ordinary share.

Zacks Vroom

As part of the Reorganisation, on 1 December 2014, Zacks Vroom allotted and issued one fully-paid ordinary share and bought-back an aggregate of 3,730,000 fully-paid ordinary shares which were then cancelled on the same day. After the share buy-back on 2 December 2014, the share capital of Zacks Vroom became HK\$3,730,000 comprising one fully-paid ordinary share.

Well Silver

As part of the Reorganisation, on 2 December 2014, Well Silver allotted and issued one fully-paid ordinary share and bought-back an aggregate of 12,100,000 fully-paid ordinary shares which were then cancelled on the same day. After the share buy-back on 4 December 2014, the share capital of Well Silver became HK\$12,100,000 comprising one fully-paid ordinary share.

Denmike

As part of the Reorganisation, on 1 December 2014, Denmike allotted and issued one fully-paid ordinary share and bought-back an aggregate of 2,480,000 fully-paid ordinary shares which were then cancelled on the same day. After the share buy-back on 2 December 2014, the share capital of Denmike became HK\$2,480,000 comprising one fully-paid ordinary share.

DGHK

As at the date of incorporation on 7 July 2014, DGHK had a share capital of HK\$1,000 comprising 1,000 ordinary shares. All the 1,000 ordinary shares were issued on the same day.

6. Repurchase by our Company of its own securities

This paragraph includes the information required by the Stock Exchange to be included in this document concerning the repurchase by our Company of its own securities.

(a) Sources of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles and the applicable laws of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under Cayman Islands law, any repurchases by the Company may be made out of profits of the Company or out of the sum standing to the credit of the share premium account of the Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by its Articles of Association and subject to the Companies Law,

out of capital and, in case of any premium payable on the repurchase out of profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by its Articles of Association and subject to the Companies Law, out of capital.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of the Company and the Shareholders for our Directors to have the general authority from the Shareholders to enable the Company to repurchase securities in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit the Company and its Shareholders.

(c) Exercise of the Repurchase Mandate

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the Listing, could result in up to [REDACTED] Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

On the basis of the current financial position of the Group as disclosed in this document and taking into account the current working capital position of the Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, there might be a material adverse impact on the working capital and/or gearing positions of the Group (as compared with the positions disclosed in this document). However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which, in the opinion of our Directors are from time to time appropriate for the Group.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates, currently intends to sell any Shares to the Company or its subsidiaries if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum and Articles and the applicable laws of the Cayman Islands.

No core connected person of the Company has notified the Company that he/she/it has a present intention to sell Shares to the Company, or has undertaken not to do so, in the event the Repurchase Mandate is exercised.

If, as a result of a repurchase of securities, a Shareholder’s proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeover Code. Accordingly, a Shareholder, or group of Shareholders acting in concert (within the meaning of the Takeover Code), could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeover Code as a consequence of any repurchase made pursuant to the Repurchase Mandate immediately after Listing.

No repurchase of Shares has been made since the incorporation of the Company.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

8. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) an equity transfer agreement dated 30 August 2014 and entered into between DGHK and Ping’an Caizhi pursuant to which DGHK agreed to purchase and Ping’an Caizhi agreed to sell the 4% equity interests in Langfang D&G held by Ping’an Caizhi at a consideration of RMB28,889,425;
- (b) an equity transfer agreement dated 30 August 2014 and entered into between DGHK and Boyongjin LP pursuant to which DGHK agreed to purchase and Boyongjin LP agreed to sell the 4% equity interests in Langfang D&G held by Boyongjin LP at a consideration of RMB28,889,425;
- (c) an equity transfer agreement dated 30 August 2014 and entered into between DGHK and Zhongshen LP pursuant to which DGHK agreed to purchase and Zhongshen LP agreed to sell the 4% equity interests in Langfang D&G held by Zhongshen LP at a consideration of RMB29,185,482.41;
- (d) an equity transfer agreement dated 30 August 2014 and entered into between DGHK and Shengbang Huimin pursuant to which DGHK agreed to purchase and Shengbang Huimin agreed to sell the 2% equity interests in Langfang D&G held by Shengbang Huimin at a consideration of RMB14,505,827;
- (e) an equity transfer agreement dated 15 September 2014 and entered into between DGHK and Anxin LP pursuant to which DGHK agreed to purchase and Anxin LP agreed to sell the 2% equity interests in Langfang D&G held by Anxin LP at a consideration of RMB14,422,142;
- (f) four instruments of transfer each dated 22 September 2014 in respect of the sale by the Choi Family Founders and the purchase by our Company of the 100 shares with a par value of US\$1.00 each representing the entire issued share capital of Rich Benefit for an aggregate consideration of US\$4.00;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (g) a shareholder's loan agreement dated 10 October 2014 and entered into between BVI-Prima DG and our Company pursuant to which BVI-Prima DG agreed to advance the Prima DG Shareholder's Loan to our Company;
- (h) an investor's rights agreement dated 3 November 2014 and entered into among our Controlling Shareholders, our Company and Regal Sky which sets out certain rights and obligations of the parties in relation to the management of our Company;
- (i) a share charge dated 3 November 2014 and entered into between our Company and Regal Sky in respect of the charge over the entire issued share capital of Rich Benefit;
- (j) a shareholder's loan agreement dated 18 November 2014 and entered into between BVI-Prima DG and our Company pursuant to which BVI-Prima DG agreed to advance the HK\$1.4M Loan to our Company;
- (k) an equity transfer agreement dated 25 November 2014 and entered into between BW Enterprise and Diamond Strong pursuant to which BW Enterprise agreed to purchase and Diamond Strong agreed to sell the 29.06% equity interests in Langfang D&G held by Diamond Strong at a consideration of RMB45,333,600;
- (l) an equity transfer agreement dated 25 November 2014 and entered into between BW Enterprise and Wengdefeng LP pursuant to which BW Enterprise agreed to purchase and Wengdefeng LP agreed to sell the 3% equity interests in Langfang D&G held by Wengdefeng LP at a consideration of RMB4,680,000;
- (m) an equity transfer agreement dated 25 November 2014 and entered into between BW Enterprise and Langfang Deying pursuant to which BW Enterprise agreed to purchase and Langfang Deying agreed to sell the 1% equity interests in Langfang D&G held by Langfang Deying at a consideration of RMB1,560,000;
- (n) an equity transfer agreement dated 25 November 2014 and entered into between BW Enterprise and Langfang Decai pursuant to which BW Enterprise agreed to purchase and Langfang Decai agreed to sell the 1% equity interests in Langfang D&G held by Langfang Decai at a consideration of RMB1,560,000;
- (o) an equity transfer agreement dated 30 November 2014 and entered into between Langfang D&G and Beijing Weilifei pursuant to which Langfang D&G agreed to sell and Beijing Weilifei agreed to purchase the entire equity interests in Beijing D&G at a consideration of RMB31,716,700;
- (p) a share buy-back agreement dated 1 December 2014 and entered into between Mr. Choi and BW Enterprise pursuant to which BW Enterprise agreed to buy-back from Mr. Choi the 12,000,000 shares of BW Enterprise held by Mr. Choi at a consideration of HK\$1.00;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (q) a share buy-back agreement dated 1 December 2014 and entered into between Ms. Tin and BW Enterprise pursuant to which BW Enterprise agreed to buy-back from Ms. Tin the 6,000,000 shares of BW Enterprise held by Ms. Tin at a consideration of HK\$1.00;
- (r) a share buy-back agreement dated 1 December 2014 and entered into between Mr. Derek Choi and BW Enterprise pursuant to which BW Enterprise agreed to buy-back from Mr. Derek Choi the 6,000,000 shares of BW Enterprise held by Mr. Derek Choi at a consideration of HK\$1.00;
- (s) a share buy-back agreement dated 1 December 2014 and entered into between Ms. Glendy Choi and BW Enterprise pursuant to which BW Enterprise agreed to buy-back from Ms. Glendy Choi the 6,000,000 shares of BW Enterprise held by Ms. Glendy Choi at a consideration of HK\$1.00;
- (t) a share buy-back agreement dated 1 December 2014 and entered into between Mr. Liu Tom Jing-zhi and Zacks Vroom pursuant to which Zacks Vroom agreed to buy-back from Mr. Liu Tom Jing-zhi the 3,730,000 shares of Zacks Vroom held by Mr. Liu Tom Jing-zhi at an aggregate consideration of HK\$1.00;
- (u) a share buy-back agreement dated 1 December 2014 and entered into between the Mr. Lao Kam Chi and Denmike pursuant to which Denmike agreed to buy-back from Mr. Lao Kam Chi the 2,480,000 shares of Denmike held by Mr. Lao Kam Chi at an aggregate consideration of HK\$1.00;
- (v) a share buy-back agreement dated 2 December 2014 and entered into between Mr. Chan Hak and Well Silver pursuant to which Well Silver agreed to buy-back from Mr. Chan Hak the 12,100,000 shares of Well Silver held by Mr. Chan Hak at an aggregate consideration of HK\$1.00;
- (w) an asset transfer agreement dated 9 December 2014 and entered into between Langfang D&G and Beijing D&G pursuant to which Langfang D&G agreed to purchase and Beijing D&G agreed to sell certain assets and liabilities of Beijing D&G including the machineries and inventories in relation to the electronic control room facilities of Beijing D&G at their net book value of RMB15,247,063.16;
- (x) an intellectual property transfer agreement dated 2 January 2015 and entered into between Beijing D&G and Langfang D&G pursuant to which Beijing D&G agreed to sell and Langfang D&G agreed to acquire the seven registered utility model patents of Beijing D&G at nil consideration;
- (y) an intellectual property transfer agreement dated 2 January 2015 and entered into between Beijing D&G and Langfang D&G pursuant to which Beijing D&G agreed to sell and Langfang D&G agreed to acquire the 12 computer software copyrights registered in the name of Beijing D&G at nil consideration;









APPENDIX IV STATUTORY AND GENERAL INFORMATION

- (z) a shareholder’s loan agreement dated 7 January 2015 and entered into between BVI-Prima DG and our Company pursuant to which BVI-Prima DG agreed to advance the Diamond Strong Loan to our Company;
- (aa) a share charge dated [●] 2015 and entered into between Rich Benefit and Regal Sky in respect of the charge over the entire issued share capital of BW Enterprise;
- (bb) the Deed of Indemnity;
- (cc) the Deed of Non-Competition; and
- (dd) the Hong Kong Underwriting Agreement.

9. Intellectual property rights of our Group




(a) Trademarks

As at the Latest Practicable Date, we had registered the following trademarks which we believe are material to our business:

No.	Trademark	Owner	Place of Registration	Class	Registration Number	Expiry Date
1.		Langfang D&G	PRC	35	3644402	20 June 2015
2.		Langfang D&G	European Union	7,35,37,40,42	004642039	15 September 2015
3.		Langfang D&G	PRC	37	3644401	27 October 2015
4.		Langfang D&G	PRC	7	3644383	13 December 2015
5.		Langfang D&G	PRC	7	3644384	13 December 2015
6.		Langfang D&G	PRC	7	4919873	20 September 2019
7.		Langfang D&G	PRC	7	6678649	27 March 2020
8.		Langfang D&G	PRC	37	6678647	13 April 2020

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

No.	Trademark	Owner	Place of Registration	Class	Registration Number	Expiry Date
9.		Langfang D&G	European Union	7,35,37,40,42	009521147	15 November 2020
10.		Langfang D&G	PRC	7	1976185	20 January 2023
11.	D & G	Langfang D&G	PRC	7	1976187	20 January 2023
12.	D & G	Langfang D&G	PRC	37	1987631	27 February 2023
13.	德基	Langfang D&G	PRC	37	1987638	27 February 2023
14.	德基	Langfang D&G	PRC	7	2015346	27 February 2023
15.	D & G	Langfang D&G	PRC	35	1998645	27 February 2023
16.	德基	Langfang D&G	PRC	35	1998647	27 February 2023
17.		Langfang D&G	PRC	35	6678648	13 December 2023

As at the Latest Practicable Date, applications had been made for the registration of the following trademarks:

No.	Trademark	Applicant	Place of Registration	Class	Application Number
1		BW Enterprise	Hong Kong	7,35,37	303107619
2	D&G Machinery	Langfang D&G	European Union	7, 35, 37, 40, 42	013366232

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(b) Patents

As at the Latest Practicable Date, we were the registered owner of the following patents in the PRC:

No.	Patent	Type	Owner	Patent Number	Application Date	Period of Validity (No. of Years)
1	Inner circulation structure of industrial burner injector gun* (工業爐窑燃燒器噴油槍內循環結構)	Utility model	Langfang D&G	ZL 2011 2 0289063.5	10 August 2011	10
2	High-pressure air nozzle of industrial burner* (工業爐窑燃燒器內混式高壓空氣霧化噴嘴)	Utility model	Langfang D&G	ZL 2011 2 0288900.2	10 August 2011	10
3	A type of insulation used by asphalt mixing equipment* (一種瀝青攪拌設備所用的保溫體)	Utility model	Langfang D&G	ZL 2011 2 0289700.9	10 August 2011	10
4	Drying drum with recycling ring* (一種帶再生環的烘乾滾筒)	Utility model	Langfang D&G	ZL 2011 2 0288906.X	10 August 2011	10
5	Thermal recycling equipment of double drum mixing plant* (雙滾筒廠拌熱再生設備)	Utility model	Langfang D&G	ZL 2011 2 0289688.1	10 August 2011	10
6	Vibrating screener for asphalt mixing equipment* (瀝青混合料攪拌設備所用的震動篩)	Utility model	Langfang D&G	ZL 2011 2 0531206.9	19 December 2011	10
7	Drying drum used for asphalt mixture* (瀝青混合料攪拌設備所用的烘乾滾筒)	Utility model	Langfang D&G	ZL 2011 2 0531208.8	19 December 2011	10
8	Conveyors for folding and transporting mixture* (折疊式成品料輸送裝置)	Utility model	Langfang D&G	ZL 2012 2 0223542.1	17 May 2012	10
9	Low-speed rotary encoder support mount* (低速轉動編碼器的安裝支架)	Utility model	Langfang D&G	ZL 2012 2 0222965.1	17 May 2012	10
10	Flip maintenance platform for folding fence* (帶折疊護欄的翻轉檢修平台)	Utility model	Langfang D&G	ZL 2012 2 0223541.7	17 May 2012	10
11	Integrated industrial furnace burners* (一體式工業爐窑燃燒器)	Utility model	Langfang D&G	ZL 2012 2 0222116.6	17 May 2012	10
12	An intermittent asphalt mixing equipment for non-vibrating screener mixture warehouse* (無振動篩成品倉的間歇式瀝青混合料攪拌設備)	Utility model	Langfang D&G	ZL 2012 2 0222231.3	17 May 2012	10

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

No.	Patent	Type	Owner	Patent Number	Application Date	Period of Validity (No. of Years)
13	Biaxial continuous mixing pot* (連續式雙軸攪拌鍋)	Utility model	Langfang D&G	ZL 2012 2 0222117.0	17 May 2012	10
14	Vibration amplitude detector of multi-point continuous online mixing screener* (多點連續式在綫振動篩振幅檢測儀)	Utility model	Langfang D&G	ZL 2012 2 0222232.8	17 May 2012	10
15	A reclaimed asphalt mixing method* (一種再生瀝青混合料的攪拌方法)	Invention	Langfang D&G	ZL 2012 1 0154088.3	17 May 2012	20
16	A asphalt mixing manufacturing method* (一種製造瀝青攪拌設備的方法)	Invention	Langfang D&G	ZL 2012 1 0257818.2	24 July 2012	20
17	Continuous online detector for liquid with high viscosity* (高粘度液體液位連續在綫檢測儀)	Utility model	Langfang D&G	ZL 2012 2 0360970.9	25 July 2012	10
18	A cracking equipment for recycling asphalt mixing materials* (一種瀝青回收混合料的破碎設備)	Utility model	Langfang D&G	ZL 2012 2 0403237.0	14 August 2012	10
19	Multi-layer bag for duster* (多層布袋式除塵器)	Utility model	Langfang D&G	ZL 2012 2 0641452.4	29 November 2012	10
20	An energy saving mixture transport system* (一種節能型成品料輸送系統)	Utility model	Langfang D&G	ZL 2012 2 0652737.8	29 November 2012	10
21	Measurable liquid additives adding equipment* (可計量的液體添加劑添加裝置)	Utility model	Langfang D&G	ZL 2012 2 0661445.0	4 December 2012	10
22	Heavy crude oil spray gun* (可排空式重油噴槍)	Utility model	Langfang D&G	ZL 2012 2 0673878.8	10 December 2012	10
23	Drying drum of an asphalt mixing equipment* (一種瀝青混合料攪拌設備所用的 乾燥筒)	Utility model	Langfang D&G	ZL 2012 2 0695657.0	14 December 2012	10
24	Mini multi-level screener environmental asphalt mixing equipment* (小機型多級篩分環保瀝青攪拌設備)	Utility model	Langfang D&G	ZL 2013 2 0306062.6	30 May 2013	10
25	Automatic cool and warm blowing convertor* (自動清吹型熱交換器)	Utility model	Langfang D&G	ZL 2013 2 0303689.6	30 May 2013	10
26	New hot drying drum for asphalt recycle* (新型舊瀝青回收料再生加熱烘乾滾筒)	Utility model	Langfang D&G	ZL 2013 2 0433898.2	19 July 2013	10

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

No.	Patent	Type	Owner	Patent Number	Application Date	Period of Validity (No. of Years)
27	A forced intermittent special mixing equipment for renewable asphalt* (一種強制間歇式瀝青合料再生專用攪拌設備)	Utility model	Langfang D&G	ZL 2014 2 0075123.7	20 February 2014	10
28	An intermittent asphalt foaming system* (一種間歇式瀝青發泡裝置)	Utility model	Langfang D&G	ZL 2014 2 0083736.5	26 February 2014	10
29	An energy saving mixture transport system* (一種節能型成品料輸送系統)	Invention	Langfang D&G	ZL 2012 1 0504418.7	29 November 2012	20
30	An intermittent asphalt concrete mixing equipment distribution control system* (一種間歇式瀝青混凝土攪拌設備分佈式控制系統)	Utility model	Beijing D&G ^{Note}	ZL 2014 2 0300965.8	9 June 2014	10
31	An intermittent asphalt concrete mixing equipment electric control testing system* (一種間歇式瀝青攪拌設備電控系統測試台)	Utility model	Beijing D&G ^{Note}	ZL 2014 2 0300962.4	9 June 2014	10
32	A windlass double cycle control system* (一種捲揚機雙閉環控制系統)	Utility model	Beijing D&G ^{Note}	ZL 2014 2 0300963.9	9 June 2014	10
33	A computer control system for asphalt concrete mixing equipment* (一種瀝青混凝土攪拌設備電腦人機界面冗餘控制系統)	Utility model	Beijing D&G ^{Note}	ZL 2014 2 0304379.0	10 June 2014	10
34	An intermittent asphalt concrete mixing equipment automatic dust control system* (一種瀝青混凝土攪拌設備負壓自動控制系統)	Utility model	Beijing D&G ^{Note}	ZL 2014 2 0304378.6	10 June 2014	10
35	An intermittent asphalt concrete mixing equipment remote service system* (一種瀝青攪拌站遠程網絡服務系統)	Utility model	Beijing D&G ^{Note}	ZL 2014 2 0304376.7	10 June 2014	10
36	An asphalt concrete mixing simulation system* (一種瀝青混凝土攪拌設備模擬演示系統)	Utility model	Beijing D&G ^{Note}	ZL 2014 2 0304377.1	10 June 2014	10

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Note: Langfang D&G and Beijing D&G entered into an intellectual property transfer agreement on 2 January 2015, pursuant to which Beijing D&G agreed to transfer all of its seven registered utility model patents to Langfang D&G at nil consideration. As at the Latest Practicable Date, we were in the process of registering the transfers of such utility model patents with the PRC State Intellectual Property Office. We expect to complete such registrations before Listing. Our PRC Legal Adviser has confirmed that there will not be any material legal impediment to the aforementioned transfers.

As at the Latest Practicable Date, applications have been made for the registration of the following patents in the PRC:

<u>No.</u>	<u>Patent</u>	<u>Type</u>	<u>Owner</u>	<u>Patent Number</u>	<u>Application Date</u>
1	A forced intermittent special mixing equipment for renewable asphalt* (一種強制間歇式瀝青混合料再生專用攪拌設備)	Invention	Langfang D&G	201410059099.2	20 February 2014
2	An intermittent asphalt foaming system* (一種間歇式瀝青發泡裝置)	Invention	Langfang D&G	201410066319.4	26 February 2014
3	Gas, oil and coal multi-fuel burner* (油汽煤多用燃燒器一體機)	Utility model	Langfang D&G	201420501155.9	2 September 2014
4	Organic frustum boiler with three-rounded horizontal heater* (爐體加熱三回程臥式有機熱截體鍋爐)	Utility model	Langfang D&G	201420502668.1	2 September 2014
5	New form of liquid transport and heat retention pipe* (液體輸送保溫管道新形式)	Utility model	Langfang D&G	201420596033.2	15 October 2014

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(c) Computer Software Copyright

As at the Latest Practicable Date, we had registered the copyrights of following computer softwares which we believe are material to our business. Under the Regulation on Computer Software Protection Regulations in the PRC* (《計算機軟件保護條例》), the copyright of a computer software owned by a corporate entity is protected in the PRC for a period starting from the date of completion until 31 December of the 50th anniversary of the date of first publication. The copyright protection will expire if a computer software is not published within 50 years of its date of completion.

No.	Name of software	Registered owner	Registration No.	Completion Date	First Publication Date
1	Granulator control system V1.0* (制粒機控制系統V1.0)	Langfang D&G	2011SR008006	8 May 2010	Unpublished
2	Multi-position sliding trolley control system V1.0 for mixture warehouse* (多倉位成品倉橫移小車控制系統V1.0)	Langfang D&G	2011SR008031	8 September 2010	Unpublished
3	300 tonnes mixture warehouse trolley transportation control system V1.0* (300噸成品倉小車運輸控制系統V1.0)	Langfang D&G	2011SR018782	18 March 2010	Unpublished
4	D&G dust control software V1.0* (德基除塵器控制軟件V1.0)	Langfang D&G	2011SR018783	12 August 2009	Unpublished
5	D&G drying temperature automatic control system V1.0* (德基乾燥溫度自調控制軟件V1.0)	Langfang D&G	2011SR019206	10 June 2009	Unpublished
6	D&G simulation data recording control software V1.0* (德基模擬試驗台數據記錄控制軟件V1.0)	Langfang D&G	2011SR019101	20 November 2009	Unpublished
7	Warehouse goods stacking transfer control software V1.0* (庫房貨物堆放轉移控制軟件V1.0)	Langfang D&G	2011SR019096	16 December 2009	Unpublished
8	D&G warehouse material in-and-out mechanical electric control system V1.0* (德基倉儲進料出料電機控制軟件V1.0)	Langfang D&G	2011SR019208	13 April 2010	Unpublished
9	D&G material mixing control software V1.0* (德基拌鍋料攪拌控制軟件V1.0)	Langfang D&G	2011SR020362	18 March 2010	Unpublished

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

No.	Name of software	Registered owner	Registration No.	Completion Date	First Publication Date
10	D&G laboratory data acquisition and analysis system V1.0* (德基實驗室數據采集分析系統V1.0)	Langfang D&G	2011SR020755	9 February 2010	Unpublished
11	Asphalt concrete mixing equipment computer monitoring system V1.0* (瀝青混凝土攪拌設備計算機監控系統V1.0)	Langfang D&G <i>(Note)</i>	2010SR059726	21 December 2007	21 December 2007
12	Asphalt concrete mixing equipment calculation control system V1.0* (瀝青混凝土攪拌設備計量控制系統V1.0)	Langfang D&G <i>(Note)</i>	2010SR059728	28 December 2007	28 December 2007
13	Asphalt concrete mixing equipment windlass control system V1.0* (瀝青混凝土攪拌設備捲揚機控制系統V1.0)	Langfang D&G <i>(Note)</i>	2010SR059727	28 December 2009	28 December 2009
14	Asphalt concrete mixing equipment burner control system V1.0* (瀝青混凝土攪拌設備燃燒器控制系統V1.0)	Langfang D&G <i>(Note)</i>	2010SR059731	28 December 2009	28 December 2009
15	Asphalt concrete mixing equipment cold material warehouse primary configuration control system V1.0* (瀝青混凝土攪拌設備冷料倉初級配置控制系統V1.0)	Langfang D&G <i>(Note)</i>	2010SR059732	28 December 2009	28 December 2009
16	Asphalt concrete mixing equipment pre-demonstration system V1.0* (瀝青混凝土攪拌設備模擬演示系統V1.0)	Langfang D&G <i>(Note)</i>	2010SR059733	28 December 2008	29 December 2008
17	Asphalt mixing Siemens S5PLC upgrade system (“ S5 upgrade system ”) V1.0* (瀝青攪拌站西門子S5PLC升級系統 (“ S5升級系統 ”) V1.0)	Langfang D&G <i>(Note)</i>	2012SR113210	10 September 2010	30 September 2010
18	Mixture warehouse weight control system V1.0* (成品倉稱重控制系統V1.0)	Langfang D&G <i>(Note)</i>	2012SR113205	20 December 2010	30 December 2010

APPENDIX IV STATUTORY AND GENERAL INFORMATION

<u>No.</u>	<u>Name of software</u>	<u>Registered owner</u>	<u>Registration No.</u>	<u>Completion Date</u>	<u>First Publication Date</u>
19	Intermittent asphalt mixing drying drum testing system V1.0* (間歇式瀝青攪拌站乾燥筒測試系統V1.0)	Langfang D&G ^(Note)	2012SR113224	22 May 2011	2 February 2012
20	Intermittent asphalt mixing vibration screener testing system V1.0* (間歇式瀝青攪拌站振篩測試系統V1.0)	Langfang D&G ^(Note)	2012SR113219	15 August 2011	13 April 2012
21	Asphalt concrete remote internet service system (“ Remote internet service system ”) V1.0* (瀝青攪拌站遠程網絡服務系統 (“遠程網絡服務系統”) V1.0)	Langfang D&G ^(Note)	2012SR113178	11 June 2012	16 August 2012
22	Intermittent asphalt stirring electrical cabinet testing system (“ Electrical cabinet testing system ”) V1.0* (間歇式瀝青攪拌站電控櫃測試系統 (“電控櫃測試系統”) V1.0)	Langfang D&G ^(Note)	2012SR113608	21 August 2012	13 September 2012

Note: Pursuant to an intellectual property transfer agreement dated 2 January 2015 and entered into between Langfang D&G and Beijing D&G, Langfang D&G acquired from Beijing D&G 12 computer software copyrights formerly registered in the name of Beijing D&G at nil consideration. The acquisitions were legally and properly completed on the same day. As at the Latest Practicable Date, we were in the process of registering the change of name of such computer software copyrights with the Copyright Protection Center of China. We expect to complete such registrations before Listing. Our PRC Legal Adviser has confirmed that the registration is an administrative procedure and will not affect our title to the software copyrights and that there will not be any material legal impediment to the aforementioned registrations.

(d) *Domain Names*

As at the Latest Practicable Date, we had registered the following domain names which we believe are material to our business:

<u>Registrant</u>	<u>Domain Names</u>	<u>Expiry Date</u>
The Company	dgtechnology.com	23 November 2015
The Company	dgmachinery.net	10 July 2018
The Company	dgmachinery.com	22 August 2019

Save as disclosed herein, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to our Group’s business.

FURTHER INFORMATION ABOUT OUR DIRECTORS

10. Particulars of service contracts

Each of our executive Directors, non-executive Director and independent non-executive Directors [has entered] into a service contract with our Company pursuant to which each of them has agreed to act as Director for a fixed term of three years commencing from the Listing Date unless terminated by either party thereto giving not less than three months’ prior written notice.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of its subsidiaries other than agreements expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

11. Directors’ remuneration

Remuneration of approximately RMB1.1 million, RMB1.1 million and RMB0.9 million in aggregate were paid by our Group to our Directors in respect of each of the two years ended 31 December 2012 and 2013 and the nine months ended September 2014.

Under the current arrangements, it is expected that our Directors will be entitled to receive an aggregate remuneration of approximately HK\$5.8 million (equivalent to approximately RMB4.6 million), for the year ending 31 December 2015, excluding the discretionary bonuses payable to the executive Directors.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the two years ended 31 December 2012 and 2013 and the nine months ended September 2014 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any members of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any remuneration for each of the two years ended 31 December 2012 and 2013 and the nine months ended September 2014.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

12. Disclosure of interests

(a) *Interests and short positions of Directors in the share capital of our Company and its associated corporations*

So far as our Directors are aware, immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and taking no account of any Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme), the interests and short positions of our Directors and chief executive of our Company in the Shares or underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to our Company and the Stock Exchange once the Shares are listed, will be as follows:

Name of Director	Name of the Group member/associated corporation	Capacity	Number and class of securities (L) ^(Note 1)	Approximate percentage of shareholding in the same class of securities of the relevant company
Mr. Choi	our Company	Interest in controlled corporation ^(Note 2)	[REDACTED]	[REDACTED]
	BVI-Prima DG ^(Note 3)	Beneficial owner	[REDACTED]	[REDACTED]
		Interest of spouse ^(Note 4)	[REDACTED]	[REDACTED]
Mr. Liu Tom Jing-zhi ^(Note 5)	our Company	Interest in controlled corporation	[REDACTED]	[REDACTED]
Mr. Lao Kam Chi ^(Note 6)	our Company	Interest in controlled corporation	[REDACTED]	[REDACTED]

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Name of Director	Name of the Group member/associated corporation	Capacity	Number and class of securities (L) ^(Note 1)	Approximate percentage of shareholding in the same class of securities of the relevant company
Mr. Yu ^(Note 7)	our Company	Interest in controlled corporation	[REDACTED]	[REDACTED]
		Interests of parties to an agreement required to be disclosed under section 317 of the SFO	[REDACTED]	[REDACTED]
			[REDACTED]	[REDACTED]
Mr. Derek Choi	BVI-Prima DG ^(Note 3)	Beneficial owner	[REDACTED]	[REDACTED]
Ms. Glendy Choi	BVI-Prima DG ^(Note 3)	Beneficial owner	[REDACTED]	[REDACTED]

Notes:

- The letter “L” denotes the entity/person’s long position in the Shares or the shares in the share capital of the relevant associated corporation.
- Mr. Choi directly holds 40% of the issued share capital of BVI-Prima DG. BVI-Prima DG directly holds [REDACTED] the Shares in the issued share capital of our Company. BVI-Prima DG also entered into an agreement with each of (i) the 43 employee shareholders of BVI-DY; (ii) the 34 employee shareholders of BVI-Decai; and (iii) Mr. Yu, for advancing a loan to each of them for paying up the nil-paid shares in the Offshore Employee Holding Entities, respectively. The Offshore Employee Holding Entities in turn applied such capital to acquire the [REDACTED] of Shares in the issued share capital of our Company, respectively. BVI-Prima DG is deemed to be interested in all the Shares in which the Offshore Employee Holding Entities are interested by virtue of section 317 of the SFO. As Mr. Choi directly holds [REDACTED] of the issued share capital of BVI-Prima DG, Mr. Choi is deemed to be interested in all the Shares in which BVI-Prima DG is interested under the SFO.
- BVI-Prima DG is the holding company, and hence an associated corporation, of our Company under Part XV of the SFO.
- Ms. Tin directly holds 20% interests in BVI-Prima DG. Since Ms. Tin is the spouse of Mr. Choi, Mr. Choi is deemed to be interested in all the shares in BVI-Prima DG in which Ms. Tin is interested.
- These Shares are held by BVI-Zacks Vroom, which is directly held as to 100% by Mr. Liu Tom Jing-zhi. Accordingly, by virtue of the SFO, Mr. Liu Tom Jing-zhi is deemed to be interested in all the Shares held by BVI-Zacks Vroom.
- These Shares are held by BVI-Denmike, which is directly held as to 100% by Mr. Lao Kam-Chi. Accordingly, by virtue of the SFO, Mr. Lao Kam-Chi is deemed to be interested in all the Shares held by BVI-Denmike.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

7. Mr. Yu directly holds 100% of the issued share capital of BVI-Wonderful which in turn holds [REDACTED] of Shares in the issued share capital of our Company. Accordingly, by virtue of the SFO, Mr. Yu is deemed to be interested in all the Shares held by BVI-Wonderful. Mr. Yu entered into an agreement with BVI-Prima DG for the borrowing of a loan from BVI-Prima DG to pay up the nil-paid shares in BVI-Wonderful. BVI-Wonderful in turn applied such capital to acquire the [REDACTED] of Shares in the issued share capital of our Company. Mr. Yu is deemed to be interested in all the Shares in which BVI-Prima DG is interested by virtue of section 317 of the SFO.

Save as disclosed above, so far as our Directors are aware, immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and taking no account of any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), none of our Directors and chief executive of our Company has any interests or short positions in the Shares or underlying Shares and debentures of our Company or its associated corporations which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to our Company and the Stock Exchange once the Shares are listed.

(b) *Substantial Shareholders and other interests discloseable under the SFO*

So far as is known to our Directors, immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and taking no account of any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme), the following person (other than a Director or the chief executive of our Company) will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group or have any option in respect of such capital:

Name	Capacity	Number of Shares held (L) ^(Note 1)	Approximate percentage of shareholding in our Company
BVI-Prima DG ^(Note 2)	Beneficial owner	[REDACTED]	[REDACTED]
	Interests of parties to an agreement required to be disclosed under section 317 of the SFO	[REDACTED]	[REDACTED]
		<u>[REDACTED]</u>	<u>[REDACTED]</u>

APPENDIX IV STATUTORY AND GENERAL INFORMATION

Name	Capacity	Number of Shares held (L) ^(Note 1)	Approximate percentage of shareholding in our Company
Ms. Tin ^(Note 3)	Interest of spouse	[REDACTED]	[REDACTED]
Each of the 43 employee shareholders of BVI-DY ^(Note 4)	Interests of parties to an agreement required to be disclosed under section 317 of the SFO	[REDACTED]	[REDACTED]
Each of the 34 employee shareholders of BVI-Decai ^(Note 5)	Interests of parties to an agreement required to be disclosed under section 317 of the SFO	[REDACTED]	[REDACTED]
Regal Sky	Beneficial owner	[REDACTED]	[REDACTED]

Note:

- The letter “L” denotes the entity/person’s long position in the Shares.
- BVI-Prima DG directly holds [REDACTED] of the issued share capital of the Company. BVI-Prima DG also entered into an agreement with each of (i) the 43 employee shareholders of BVI-DY; (ii) the 34 employee shareholders of BVI-Decai; and (iii) Mr. Yu, for advancing a loan to each of them for paying up the nil-paid shares in the Offshore Employee Holding Entities, respectively. The Offshore Employee Holding Entities in turn applied such capital to acquire the [REDACTED] and [REDACTED] of Shares in the issued share capital of our Company, respectively. BVI-Prima DG is deemed to be interested in all the Shares in which the Offshore Employee Holding Entities are interested by virtue of section 317 of the SFO.
- These Shares are held by BVI-Prima DG which is directly held as to 40% by Mr. Choi. Under the SFO, Mr. Choi is deemed to be interested in all the Shares held by BVI-Prima DG. Since Ms. Tin is the spouse of Mr. Choi, Ms. Tin is also deemed to be interested in the same number of Shares in which Mr. Choi is interested by virtue of the SFO.
- BVI-DY is wholly-owned by the following 43 employees of the Group: Chen Meiyun (陳美雲), Cao Wensheng (曹文聲), Chu Jindong (鉅金東), Guo Cheng (郭誠), Guo Shoushen (郭守慎), Guo Weiqun (郭維群), Hong Changbin (洪常斌), Li Chunsheng (李春生), Li Tong (李彤), Liu Xinping (劉新平), Wang Haijun (王海軍), Wang Naijun (王乃軍), Wang Wei (王威), Yang Xiaofeng (楊曉峰), You Lixin (游立新), Zeng Xianguang (曾憲廣), Zhou Shaofei (周紹飛), Zhou Xiang (周翔), Zhang Wenqiang (張文強), Lu Xiaofeng (盧曉峰), Zhao Xiongzhi (趙雄志), Liu Huixian (劉慧賢), Jiao Jie (焦潔), Guo Guangzhong (郭廣忠), Zhang Aijie (張愛傑), Hou Yinbo (侯印波), Hou Boxin (侯伯新), Hou Yinqi (侯印起), Bai Jinshan (白金山), Hao Hongliang (郝紅亮), Jia Li (賈莉), Xiao Guojun (肖國軍), Gao Zhijun (高志軍), Liu Qiaoxia (劉巧霞), Jiang Haijun (姜海軍), Zhao Xinli (趙欣麗), Tang Houyi (唐厚義), Wu Qiong (吳瓊), Du Ge (都戈), Liu Jinlong (劉金龍), Zhang Quanli (張全利), Hu Yanhong (胡雁鴻) and Cheng Wenqiu (成文秋).

BVI-DY holds [REDACTED] of Shares in the issued share capital of our Company. Each of the 43 employee shareholders of BVI-DY entered into an agreement with BVI-Prima DG for the borrowing of a loan from BVI-Prima DG to pay up the nil-paid shares in BVI-DY. BVI-DY in turn applied such aggregate capital to acquire the [REDACTED] of Shares in the issued share capital of our Company. Each of the 43 employee shareholders is deemed to be interested in all the Shares in which BVI-Prima DG and BVI-DY are interested by virtue of section 317 of the SFO.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

5. BVI-Decai is wholly-owned by the following 34 employees of the Group: Wang Weiqun (王為群), Zhou Wei (周偉), Wei Jianqiang (魏建強), Zhang Chunzheng (張春錚), Li Xinwu (李新武), Duan Yongchang (段永昌), Sui Chunliang (隋春亮), Yu Honglin (于洪林), Wang Quanling (王全玲), Hao Yanwei (郝豔偉), Yang Zhen (楊震), Kang Guang (康光), Zhang Shuai (張帥), Chen Qingsong (陳青松), Dong Zhengwen (董政雯), Chen Chengguang (陳城光), Peng Jiang (彭江), Ma Wenqiang (馬文強), Li Liulin (李柳林), Zhou Yicheng (周鈺成), Su Wenhua (蘇文華), Hu Zhenpeng (胡振鵬), Cao Wenbo (曹文波), Wang Yanguan (王燕關), Lu Jinbo (盧金波), Zhang Jisheng (張吉生), Zhang Baohua (張保華), Bai Wenhai (白文海), Mu Guangya (穆光亞), Hou Guoling (侯國玲), Li Shumin (李樹民), Ma Lixin (馬立新), Li Zhonghua (李忠華) and Guan Xiangdong (關向東).

BVI-Decai holds [REDACTED] of Shares in the issued share capital of our Company. Each of the 34 employee shareholders of BVI-Decai entered into an agreement with BVI-Prima DG for the borrowing of a loan from BVI-Prima DG to pay up the nil-paid shares in BVI-Decai. BVI-Decai in turn applied such aggregate capital to acquire the [REDACTED] of Shares in the issued share capital of our Company. Each of the 34 employee shareholders is deemed to be interested in all the Shares in which BVI-Prima DG and BVI-Decai are interested by virtue of section 317 of the SFO.

Save as disclosed above, our Directors are not aware of any person (other than a Director or the chief executive of our Company) who will, immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and taking no account of any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of our Group or have any option in respect of such capital.

13. Agency fees or commissions received

Except as disclosed in the section headed “Underwriting” in this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this document.

14. Related party transactions

During the two years immediately preceding the date of this document, our Group engaged in the related party transactions as mentioned in Note 26 of the Accountants’ Report set out in Appendix I to this document.

15. Disclaimers

Save as disclosed in this document:

- (i) and taking no account of any Shares which may be taken up or acquired under the [REDACTED] or upon the exercise of any option which may be granted under the Share Option Scheme, none of our Directors or chief executive of our Company had any interest or short position in the Shares, underlying Shares or debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to our Company and the Stock Exchange once the Shares are listed on the Main Board;
- (ii) and taking no account of any Shares which may be taken up or acquired under the [REDACTED] or issued upon the exercise of any option which may be granted under the Share Option Scheme, so far as is known to our Directors, no person (not being a Director or chief executive of our Company) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group or have any option in respect of such capital immediately following completion of the [REDACTED];
- (iii) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Group and any of our Directors;
- (iv) none of our Directors or any persons referred to in the paragraph headed “Other Information – 24. Qualifications and consents of experts” in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been within the two years immediately preceding the date of this document acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired, disposed of by or leased to any member of our Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (v) none of our Directors or any persons referred to in the paragraph headed “Other Information – 24. Qualifications and consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole; and

- (vi) none of the persons referred to in the paragraph headed “Other Information – 24. Qualifications and consents of experts” in this Appendix has any shareholding in any member in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in our Group.

No option had been granted or agreed to be granted by our Company as at the Latest Practicable Date.

OTHER INFORMATION

16. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a resolution passed at the extraordinary general meeting of our Company on [●] 2015 and adopted by a resolution of our Board on [●] 2015. The terms of the Share Option Scheme are in accordance with the provisions under the Listing Rules. As at the Latest Practicable Date, no option has been granted pursuant to the Share Option Scheme.

(a) Purpose

The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of the Eligible Participants (as defined in paragraph (b) below) to our Group by granting options to them as incentives or rewards.

Our Directors consider the Share Option Scheme will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group. Given that our Board is entitled to impose any conditions, restrictions or limitations as it may think fit when making an offer (“**Offer**”) on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(b) Who may join

Our Board may during the Scheme Period (as defined in paragraph (j) below) at its absolute discretion (subject to any conditions as it may think fit) Offer to grant options to subscribe for such number of Shares as our Board may determine at an option price determined in accordance with paragraph (c) below to the following persons (“**Eligible Participants**”):

- (i) any executive, employee, director (including non-executive director and independent non-executive director) of any member of our Group or any entity in which any member of our Group holds an equity interest (the “**Invested Entity**”);

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (ii) any advisor, consultant, professional, agent, contractor, customer, provider of goods and/or services, business or joint-venture partner of any member of our Group or any Invested Entity whom our Board in its sole discretion considers eligible for the Scheme on the basis of his or her contribution to our Group or the Invested Entity (as the case may be); and
 - (iii) any person whom our Board in its sole discretion considers has contributed or will contribute to our Group or to the Invested Entity (as the case may be).
- (c) *Subscription price*

The subscription price of a Share payable on the exercise of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price shall at least be the highest of:

- (i) the nominal value of the Shares;
- (ii) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of Offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities (“**Business Day**”); and
- (iii) the average closing prices of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five Business Days immediately preceding the date of Offer.

or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme.

(d) *Acceptance of Offer*

HK\$1.00 is payable by an Eligible Participant on acceptance of an Offer of option. Any Offer of option may be accepted, in whole or in part, in a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and in writing received by any Director or the secretary of our Company until 5:00 p.m. on the date specified in the Offer provided that no such Offer shall be open for acceptance after the expiry of the Scheme Period (as defined in paragraph (j) below) or after the Share Option Scheme has been terminated in accordance with the rules thereof.

(e) *Maximum number of Shares in respect of which options may be granted*

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other schemes of our Group must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date (the “**Limit**”). Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other schemes of our Group) will not be counted for the purpose of calculating the Limit.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Subject to the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, our Company may refresh the Limit at any time provided that:

- (i) the Limit as refreshed does not exceed 10% of the Shares in issue as at the date of the approval by the refreshed Limit;
- (ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Limit as refreshed; and
- (iii) a circular containing the information and the disclaimer, respectively required under Rule 17.02(2)(d) and Rule 17.02(4) of the Listing Rules shall be despatched to the Shareholders together with the notice of the relevant general meeting.

Our Company may also with the approval of Shareholders in general meeting grant options in respect of Shares in excess of the Limit (as refreshed from time to time) to Eligible Participants specifically identified by our Company before such approval is sought. The circular issued by our Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at anytime shall not exceed 30% of the Shares in issue from time to time. No Offer may be made under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded.

(f) Maximum entitlement of each Eligible Participant

The total number of Shares issued and which fall to be issued upon exercise of the options granted under the Share Option Scheme and any other schemes of our Group (including both exercised and outstanding options) to each Eligible Participant in any period of 12 consecutive months up to and including the date of grant of the options shall not exceed 1% of the Shares in issue as at the date of grant of the options.

Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company disclosing the identity of the Eligible Participant, the number of and terms of the options to be granted (and options previously granted to such participant) and the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if such Eligible Participant is a connected person) abstaining from voting.

The number and terms (including the exercise price) of options to be granted to such Eligible Participant must be fixed before the Shareholders’ approval and the date of our Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant of the options for the purpose of calculating the subscription price of the Shares.

(g) Granting options to connected persons

Any grant of options to a director, chief executive (as defined in the Listing Rules) or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is proposed to be an option holder).

If our Company proposes to grant options to a substantial shareholder (as defined in the Listing Rules) or any independent non-executive director of our Company or their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million, based on the closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company together with the notice of the relevant general meeting and the approval of the Shareholders in general meeting at which such proposed grantee, his associates and all core connected persons of our Company shall abstain from voting in favour at such general meeting except that any such persons may vote against the relevant resolution at the general meeting provided that his intention to vote against the proposed grant has been stated in the Shareholders’ circular referred to in the paragraph below, and/or such other requirements prescribed under the Listing Rules from time to time.

The Shareholders’ circular referred to in the preceding paragraph shall contain the following information:

- (i) details of the number and terms (including the subscription price) of the options as required under Rules 17.03(5) to 17.03(10) of the Listing Rules to be granted to each Eligible Participant, which must be fixed before the

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Shareholders' meeting, and the date of meeting of our Board proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;

- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is proposed to be an option holder) to the independent Shareholders as to voting;
 - (iii) information relating to any Directors who are trustees of the Scheme or have a direct or indirect interest in the trustees;
 - (iv) a statement in the form set out in paragraph 2 of Appendix I, Part B of the Listing Rules;
 - (v) a disclaimer required under Rule 17.02(4) of the Listing Rules;
 - (vi) information required under Rule 2.17 of the Listing Rules; and
 - (vii) any other information as required by the Stock Exchange.
- (h) *Restrictions on the times of grant of options*

For so long as the Shares are listed on the Stock Exchange,

- (i) no Offer shall be made after any inside information has come to the knowledge of our Company until such inside information has been published in accordance with the requirements of the Listing Rules. In particular, no Offer may be made during the period commencing one month immediately preceding the earlier of:
 - (A) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
 - (B) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),and ending on the date of publication of the results announcement; and
- (ii) the Directors must not make any Offer to an Eligible Participant who is a Director during the periods or times in which the Directors are prohibited from dealing in the Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(i) *Rights are personal to option holder*

An option is personal to the option holder. No option holder shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any other person over or in relation to any options, except for the transmission of an option on the death of the option holder to his personal representative(s).

(j) *Exercise period and duration of the Share Option Scheme*

Subject to the rules of the Share Option Scheme, options may be exercised by an Eligible Participant, in whole or in part, at any time during any period determined by the Board (provided that such period shall not) not exceed ten years from the date of grant and notified to an Eligible Participant. Subject to earlier termination by our Company in general meeting, the Share Option Scheme shall be valid and effective for a period commencing from [●] 2015 and expiring at 5:00 p.m. on the business day preceding the tenth anniversary of such date (“**Scheme Period**”).

(k) *Rights of exercise for option holders*

Our Board may at its discretion, when making an Offer, impose any conditions, restrictions or limitations in relation thereto as it may think fit, including but not limited to the achievement of any performance target. Subject to the aforesaid, an Eligible Participant to whom any option is granted is not required to achieve any performance target before an option can be exercised.

No Director shall deal in any securities of our Company unless he fully complies with the provisions of the Model Code.

In the event that the grantee ceases to be an Eligible Participant under the Share Option Scheme during any relevant option period by reason of ill-health, injury, disability or death or because his employing company ceases to be a member of our Group before exercising his options in full, the grantee or his personal representative, as the case may be, may exercise the options (to the extent not already exercised) within a period of six months of such ill-health, injury, disability or death or cessation, failing which such options will lapse and determine at the end of the relevant period.

In the event that a grantee ceases to be an Eligible Participant under the Share Option Scheme by reason of retirement in accordance with his contract of employment or upon expiration of his or her contract of employment or term of directorship before exercising his or her options in full, the grantee may exercise the options (to the extent not already exercised) within a period of six months after he so retires or expiration of his contract of employment or term of directorship, failing which such options will lapse and determine at the end of the relevant period.

In the event that a grantee ceases to be an Eligible Participant under the Share Option Scheme by reason of voluntary resignation other than by reason of the circumstances set out above or by termination of his employment in accordance with the termination provisions of

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

his contract of employment by his employing company before exercising his options in full, such options and any outstanding Offer will lapse and determine on the date of the resignation or termination.

(l) Discretion of our Board

Notwithstanding the aforesaid in paragraph (k) above, in each case, our Board may in its absolute discretion decide that any option shall not so lapse or determine subject to such conditions or limitations as our Board may decide.

(m) Rights on general offers

If a general offer by way of takeover is made to all the Shareholders and the offeror shall have obtained control of our Company as a consequence, option holders shall, subject to paragraph (k) above, be entitled at any time within the period of one month after control has been obtained to exercise the option in whole or in part (to the extent not already exercised), notwithstanding any restrictions in the terms of grant of the option which would otherwise have prevented the option from being exercised during such period. Any option that has not been so exercised within the one-month period shall cease and determine.

(n) Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all option holders and thereupon, each option holder shall be entitled to exercise all or any of his or her options (to the extent not already exercised) at any time thereafter until such resolution is duly passed or defeated or the general meeting concluded or adjourned sine die, whichever shall first occur. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, lapse and determine.

(o) Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which our Company was incorporated, our Company shall give notice to all the option holders on the same date as it gives notice of the meeting to its members or creditors summoning the meeting to consider such compromise or arrangement and each option holder (or where permitted his personal representative) shall forthwith be entitled to exercise his or her option until the earlier of the date two months thereafter or the date on which the compromise or arrangement is sanctioned by the court. But the exercise of the option as aforesaid shall be conditional upon the compromise or arrangement being sanctioned by the court and becoming effective.

Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(p) Ranking of Shares issued upon exercise of options

The Shares to be allotted and issued upon the exercise of an option will not carry voting rights until completion of the registration of the option holder (or any other person nominated by the option holder) as the Shareholder thereof in the register of members of our Company. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu in all respects with Shares in issue on the date of the exercise and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation, as attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of entry of such Shareholder in the register of members of our Company.

(q) Effect of alterations to capital

Upon any variation in the share capital of our Company arising from any reduction, sub-division or consolidation of share capital, any rights issue or the issue of any share capital by way of capitalisation of profits or reserves or in connection with an open offer to the Shareholders (each a “**Relevant Event**”), the number or nominal amount of Shares comprised in each option and/or the subscription price thereunder may be adjusted in any manner as our Board (having received a confirmation in writing from the auditors of our Company or an approved independent financial adviser that in their/its opinion the adjustments proposed satisfy the requirements of the note to Rule 17.03(13) of the Listing Rules and/or the rules, requirements and guidelines issued by the Stock Exchange from time to time) may deem appropriate provided always that:

- (i) no increase shall be made in the aggregate subscription price relating to any option;
- (ii) any adjustments should give each option holder the same proportion of the share capital of our Company as that to which he or she was previously entitled prior to such adjustments;
- (iii) no adjustments shall be made which will enable a Share to be issued at less than its nominal value; and
- (iv) where the Relevant Event arises from an issue of Shares, references to options shall include references to options that have been exercised prior to the date of the adjustment in respect of Shares which otherwise do not rank and are not entitled to participate in the issue by reason of the option holder not having been then registered as the holder of the relevant Shares.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(r) Lapse of options

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by our Board;
- (ii) the date of lapse as provided in paragraphs (k), (m) or (o) above;
- (iii) the date of commencement of a winding up of a Company; and
- (iv) the date on which the option holder commits a breach of paragraph (i) above.

(s) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the option holders or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted,

shall first be approved by the Shareholders in general meeting except where the proposed alteration takes effect automatically under the existing terms of the Share Option Scheme. Any change to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(t) Cancellation of options

Any unexercised option may be cancelled if the relevant option holder so agrees. Issuance of new options to the same option holder may only be made if there are unissued options available under the Share Option Scheme (excluding the cancelled options) within the 10% Limit or the Limit as refreshed pursuant to rule 5.1(b) of the Share Option Scheme and in compliance with the terms of the Share Option Scheme in force from time to time.

(u) Termination of the Share Option Scheme

Our Company may by ordinary resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be granted but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(v) *Administration of the Share Option Scheme*

The Share Option Scheme shall be administered by our Board whose decision (save as otherwise provided therein) shall be final and binding on all parties.

(w) *Condition of the Share Option Scheme*

The Share Option Scheme is conditional upon: (1) the approval for the listing of, and permission to deal in, the Shares in issue and to be issued, and any Shares to be issued pursuant to the exercise of Options under the Share Option Scheme, being granted by the Listing Committee of the Stock Exchange; (2) the [REDACTED] becoming unconditional and not being terminated according to the terms thereof; and (3) the commencement of dealing of the Shares on the Stock Exchange.

(x) *Present status of the Share Option Scheme*

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(y) *Value of Options*

Our Directors consider it inappropriate to disclose the value of the options which may be granted under the Share Option Scheme as if they had been granted at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and to a certain extent would be misleading to investors.

18. Tax and Other indemnities

Our Controlling Shareholders (the “**Indemnifiers**”) have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (bb) referred to in the paragraph headed “Further Information about the Business of our Group – 8. Summary of material contracts” above) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the Listing whether alone or in

conjunction with any other circumstances whenever occurring and whether or not the tax liabilities are chargeable against or attributable to any other person, firm, company or corporation;

- (b) tax liabilities (including all reasonable fines, penalties, costs, charges, expenses and interest relation to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date; and
- (c) all claims, damages, losses, costs, expenses, actions and proceedings (if any) arising out of or in connection with any non-compliance or alleged noncompliance by any member of our Group with any applicable PRC rules, regulations and laws in relation to any properties, social insurance contributions and housing fund contributions on or before the Listing Date.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands, BVI, Hong Kong and the PRC.

The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 December 2014;
- (b) to the extent that such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, otherwise than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before 1 January 2015; and
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 1 January 2015 or pursuant to any statement of intention made in the document; or
- (c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the deed of indemnity with retrospective effect; or

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2014 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

19. Litigation

Neither our Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any member of our Group that would have a material adverse effect or the results of operations or financial condition of our Group.

20. Application for listing of Shares

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares to be issued pursuant to the exercise of any Shares to be issued within the Limit pursuant to the exercise of any options that may be granted under the Share Option Scheme).

The Listing of the Shares on the Stock Exchange is sponsored by BOCOM International (Asia).

21. Sole Sponsor's fee, agency fee or commission

The Sole Sponsor will receive a fee of approximately HK\$4 million for acting as the sole sponsor to the Listing.

Save for the aforesaid fee and underwriting commission (in its capacity as International Underwriters or Hong Kong Underwriters), the Sole Sponsor will not receive any agency fee or commission.

22. Promoter

Our Company has no promoter as the term is defined under the Listing Rules.

23. Preliminary expenses

The preliminary expenses incurred by our Company were approximately US\$5,900 and were paid by our Company.

APPENDIX IV **STATUTORY AND GENERAL INFORMATION**

24. Qualifications and consents of experts

The qualifications of the experts who have given opinions or advices in this document are as follows:

<u>Name</u>	<u>Qualification</u>
BOCOM International (Asia) Limited	Licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined in the SFO
Chen & Co. Law Firm	PRC legal adviser
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
KPMG	Certified public accountants
CCID Consulting Company Limited	Industry consultant
Norton Rose Fulbright LLP	Qualified to advise on the applicability of economic sanctions administered under United States and European Union law
Minter Ellison	Qualified to advise on the applicability of economic sanctions administered under Australian law and the international law of the United Nations

Each of the experts set out in the table above has given and has not withdrawn its written consent to the issue of this document with the inclusion of its reports and/or letters and/or valuation and/or opinions and summaries of opinions (as the case may be) and/or the references to its name or summaries of opinion included in the form and context in which they are respectively included.

None of the experts named above:

- (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
- (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

25. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding up and Miscellaneous Provisions) Ordinance insofar as applicable.

26. Bilingual document

Pursuant to Rule 11.14 of the Listing Rules and section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this document are being published separately but are available to the public at the same time.

27. Miscellaneous

- (a) Save as disclosed in this document, within the two years preceding the date of this document:
 - (i) no share or loan capital of our Company or any of its subsidiaries had been issued or agreed to be issued or was proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries was under option or was agreed conditionally or unconditionally to be put under option;
 - (iii) no commission had been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any share in our Company or any of its subsidiaries; and
 - (iv) no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries.
- (b) Our Directors have confirmed that (i) there has been no material adverse change in the financial or trading positions of our Group since 31 December 2013 (being the date to which the latest audited combined financial information of our Group were made up); and (ii) there had not been any interruption in the business of our Group which might have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this document.
- (c) Our Company has no founder, management or deferred shares.
- (d) No securities of our Group are listed, and no listing of any such securities is proposed to be sought, on any other stock exchange.
- (e) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.
- (f) Our Group had not issued any debentures nor did it have any outstanding debentures or any convertible debt securities as at the Latest Practicable Date.

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were copies of the [REDACTED], the written consents referred to in the paragraph headed “Other Information – 24. Qualifications and consents of experts” in Appendix IV to this document and copies of the material contracts referred to in the paragraph headed “Further information about the business of our Group – 8. Summary of material contracts” in Appendix IV to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Minter Ellison at Level 25, One Pacific Place, 88 Queensway, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and Articles of Association;
- (b) the accountants’ report of our Group issued by KPMG, the text of which is set out in Appendix I to this document;
- (c) the audited financial statements of the companies comprising our Group for the three years ended 31 December 2014;
- (d) the letter issued by KPMG on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this document;
- (e) the letter prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of Cayman Islands company law referred to in Appendix III to this document;
- (f) the Companies Law;
- (g) the CCID Report;
- (h) the legal opinions prepared by Chen & Co. Law Firm in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (i) the advice in respect of certain economic sanctions administered by the United States and European Union, dated [●] 2015 prepared by Norton Rose Fulbright LLP;
- (j) the advice in respect of the sanctions regime under the laws of Australia and United Nations, dated [●] 2015 prepared by Minter Ellison;
- (k) the material contracts referred to in the paragraph headed “Further information about the business of our Group – 8. Summary of material contracts” in Appendix IV to this document;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN
HONG KONG AND AVAILABLE FOR INSPECTION**

- (l) the service contracts referred to in the paragraph headed “Further information about our Directors – 10. Particulars of service contracts” in Appendix IV to this document;
- (m) the rules of the Share Option Scheme; and
- (n) the written consents referred to in the paragraph headed “Other information – 24. Qualifications and consents of experts” in Appendix IV to this document.