For the offer of up to 50,000,000 Shares at an offer price of A$0.40 to raise up to A$20,000,000. The Minimum Subscription under the Offer is A$15,000,000.

**Important Notice**

This is an important document which should be read in its entirety before making any investment decision. You should obtain independent advice if you have any questions about any of the matters contained in this Prospectus. The Directors consider an investment in the Shares to be issued under this Prospectus to be speculative.
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IMPORTANT INFORMATION

General
This Prospectus is dated 5 September 2017. A copy of this Prospectus was lodged with ASIC on that date. Neither ASIC, ASX nor any of their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

Expiry date
No Shares will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

No person is authorised to provide any information or make any representations about the Offer which is not contained in this Prospectus. Information or representations not contained in this Prospectus must not be relied on as authorised by Piston Machinery Ltd ACN 618 786 333 (Company), or any other person, in connection with the Offer.

Suitability of Investment and Risks
This Prospectus is important and should be read in its entirety prior to deciding whether to invest in the Company's Shares. This Prospectus provides information for investors to decide if they wish to invest in the Company.

There are risks associated with an investment in the Company's Shares and the Shares offered under this Prospectus. Some of the risks that should be considered are set out in Section 9 of this Prospectus. You should carefully consider these risks in light of your personal circumstances including financial and taxation issues. There may also be risks in addition to these that should be considered in light of your personal circumstances. Seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest.

The information in this Prospectus is not financial product advice and does not take into account your investment objectives, financial situation or particular needs. This Prospectus should not be construed as financial, taxation, legal or other advice.

No person named in this Prospectus guarantees the Company's performance or any return on investment made pursuant to this Prospectus.

No offer where Offer would be illegal
This Offer does not constitute a public offer or invitation in any jurisdiction other than Australia. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and therefore any person who resides outside Australia and who receives this Prospectus should seek advice on and observe any such restrictions. It is the responsibility of applicants outside Australia to obtain all necessary approvals for the issue of Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained. The Company does not offer to sell and does not solicit an offer to issue or purchase any securities in any jurisdiction where such offer, sale, issue or solicitation may not lawfully be made. Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

Singapore
The contents of this Prospectus have not been reviewed by any regulatory authority in Singapore. You are advised to exercise caution in relation to the Offer. If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.

Notice To People’s Republic of China Residents
The information in this document does not constitute a public offer of the New Shares, whether by way of sale or subscription, in the PRC (excluding, for purposes of this paragraph only, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The New Shares may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to “qualified domestic institutional investors”.

Hong Kong
The contents of this Prospectus have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Offer. If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.
Notice to United States residents

The securities being offered pursuant to this Prospectus have not been registered under the United States Securities Act 1933, as amended (US Securities Act) and may not be offered or sold in the United States without registration or under an applicable exemption from registration under the US Securities Act and applicable United States securities laws. This Prospectus neither constitutes an offer to sell, or the solicitation of an offer to buy or subscribe for, nor shall there be any sale or issue of these securities in any state or other jurisdiction in which such offer, solicitation, sale or issue would be unlawful. In addition, any hedging transactions involving these securities may not be conducted unless in compliance with the US Securities Act.

DISCLAIMER

Investors should not rely on any information that is not contained in this Prospectus in making a decision as to whether to subscribe for Shares under the Offer. No person is authorised by the Company or the Lead Manager to give any information or make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company, its Directors or any other person in connection with the Offer.

The Company's business, financial condition, results of operations and prospects may have changed since the date of this Prospectus.

This Prospectus contains forward-looking statements concerning the Company's business, operations, financial performance and condition, as well as the Company's plans, objectives and expectations for its business, operations, financial performance and condition. Any statements contained in this Prospectus that are not of historical facts may be deemed to be forward-looking statements. You can identify these statements by words such as “aim”, “anticipate”, “assume”, “believe”, “could”, “due”, “estimate”, “expect”, “goal”, “intend”, “may”, “objective”, “plan”, “predict”, “potential”, “positioned”, “should”, “target”, “will”, “would” and other similar expressions that are predictions of or indicate future events and future trends.

These forward-looking statements are based on current expectations, estimates and projections about the Company’s business and the industry in which the Company operates and management’s beliefs and assumptions. These forward-looking statements are not guarantees of future performance or developments and involve known and unknown risks, uncertainties and other factors that are in some cases beyond the Company’s control. As a result, any or all of the Company’s forward-looking statements in this Prospectus may turn out to be inaccurate. Factors that may cause such differences include, but are not limited to, the risks described under the heading “Risk factors” in Section 9.

Potential investors and other readers are urged to consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as at the date of this Prospectus. Unless required by law, the Company does not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise.

This Prospectus contains market data and industry forecasts that were obtained from industry publications, third-party research and publicly available information. These publications generally state that the information contained in them has been obtained from sources believed to be reliable, but the Company has not independently verified the accuracy and completeness of such information.

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them. This Prospectus also includes trademarks, trade names and service marks that are the property of other organisations.

Currency

The functional currency of the operating entities in the Group is Ren Min Bi (RMB). The historical financial information included in this Prospectus for the financial periods ended 31 December 2014, 2015 and 2016 have been prepared and presented in in Australian dollars using the following average rates:

<table>
<thead>
<tr>
<th>1RMB:AUD</th>
<th>Average for the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 Dec 13</td>
<td>$0.1673</td>
</tr>
<tr>
<td>31 Dec 14</td>
<td>$0.1806</td>
</tr>
<tr>
<td>31 Dec 15</td>
<td>$0.2133</td>
</tr>
<tr>
<td>31 Dec 16</td>
<td>$0.2027</td>
</tr>
</tbody>
</table>

Other amounts have been converted at the spot rate of 0.1921 for the translation from RMB to AUD.
The proceeds of the Offer will be received in AUD, while the Company's functional currency is RMB. The Company is not currently hedging against exchange rate fluctuations, and consequently the Company will be at the risk of any adverse movement in the RMB to AUD exchange rate between the pricing of the Offer and the closing of the Offer.

Selling restrictions

Please see Section 6.11 for selling restrictions for non Australian residents, including for Hong Kong and Singapore.

Electronic Prospectus

This Prospectus will also be made available in electronic form on the Company’s website: www.zqpst.com. Any references to documents included on the Company’s website are for convenience only and none of the documents or other information available on the website are incorporated by reference in this Prospectus. The Offer constituted by this Prospectus in electronic form is available only to persons receiving this Prospectus in electronic form within Australia. Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. If unsure about the completeness of a Prospectus received electronically, or a print-out of it, you should contact the Company. A paper copy of the Prospectus will be available free of charge by contacting the Share Registry or:

AGC Capital Securities Pty Ltd
(Lead Manager and Corporate Adviser)
Tel: 02 8098 1088 (within Australia)
Tel: +61 2 8098 1088 (outside Australia)

Applications for Shares under this Prospectus may only be made by applying online or on a printed copy of the Application Form attached to or accompanying this Prospectus. The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to a hard copy of the Prospectus or the complete and unaltered electronic version of the Prospectus. If this Prospectus is found to be deficient, any Applications may need to be dealt with in accordance with section 724 of the Corporations Act.

Privacy

By filling out an Application Form or applying online for Shares, you are providing personal information to the Company through the Company’s service provider, the Share Registry, which is contracted by the Company to manage Applications. The Company and the Share Registry on its behalf, collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration. If you do not provide the information requested in the Application Form, the Company and the Share Registry may not be able to process or accept your Application.

Your personal information may also be used from time to time to inform you about other products and services offered by the Company that it considers may be of interest to you.

Your personal information may also be provided to the Company's agents and service providers on the basis that they deal with such information in accordance with the Company’s privacy policy. The types of agents and service providers (who may be located outside of Australia) that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the Shareholder register;
- the Lead Manager and Corporate Advisors in order to assess your Application;
- printers and other companies for the purpose of preparing and distributing statements and for handling mail;
- market research companies for the purpose of product development, product planning and analysing the Company's Shareholder base; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering and advising on, the Shares and for associated actions.

You may request access to your personal information held by (or on behalf of) the Company. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information by contacting the Share Registry on 1 300 288 664 (from within Australia) or +61 1300 288 664 (from outside Australia), between 9.00am to 5:00pm, AEST.

If any of your information is not correct or has changed, you may require it to be corrected.
**Exposure Period**

The Corporations Act prohibits the Company from processing Applications under the Offer in the 7 day period after the date of lodgement of the Prospectus with ASIC (Exposure Period). This period may be extended by ASIC for a further period of up to 7 days. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds under the Offer. This Prospectus will be made generally available to Australian residents during the Exposure Period, without the Application Form, by being posted on the following website: www.zqpst.com. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on any Applications received during the Exposure Period.

**Consent not sought for certain statements**

Unless specifically otherwise stated, statements made by, attributed to or based on statements by third parties have not been consented to for the purposes of section 729 of the Corporations Act and are included in this Prospectus by the Company on the basis of ASIC Corporations (Consents to Statements) Instrument 2016/72 relief from the Corporations Act for statements used from books, journals or comparable publications.

**Website**

Any documents included on the website www.zqpst.com (and any reference to them) are provided for convenience only and none of the documents or other information on the website are incorporated by reference into this Prospectus.

**Definitions and abbreviations**

Defined terms and abbreviations used in this Prospectus are explained in section 13 of this Prospectus.

**Time**

All references to time in this Prospectus refer to AEST unless stated otherwise.

**Photographs and Diagrams**

Photographs used in this Prospectus without descriptions are only for illustration. The people shown are not endorsing this Prospectus or its contents. Diagrams used in this Prospectus may not be drawn to scale. The assets depicted in photographs in this Prospectus are not assets of the Company unless otherwise stated.

**THIS DOCUMENT IS IMPORTANT AND SHOULD BE READ IN ITS ENTIRETY**
LETTER FROM THE CHAIRMAN
5 September 2017

Dear Investors,

On behalf of the Board of Piston Machinery Ltd (together with its subsidiaries, the Group), I am delighted to present this Prospectus and offer you the opportunity to become a Shareholder of the Company.

The Group commenced business in April 2007 and its operations are located primarily in Guangdong province, the PRC. Currently, the Group has two streams of business:

(a) a business manufacturing cast iron components, primarily for use in residential air conditioner rotary compressor units and related products, supplied to customers in the PRC who supply the Chinese and other international markets; and

(b) a new business, in development over the last two years, manufacturing cast motor vehicle components, primarily for commercial vehicles, for motor vehicle manufacturers in the PRC, for sale in the PRC and international markets.

The Group achieved revenues of approximately $53 million and a net profit after tax of approximately $4.28 million, for the 12 month period to 31 December 2016.

The Group is also actively pursuing growth in both of its businesses, but the more compelling opportunity exists in the motor vehicle components manufacturing business, which aims to operate in the rapidly expanding motor vehicle supply chain in the PRC. The Directors are also considering opportunities to supply into the heavy machinery and equipment market.

This Prospectus contains an offer of up to 50 million Shares at an issue price of $0.40 to raise up to $20 million. The Minimum Subscription under the Offer is $15 million. The funds raised under the Offer will be applied by the Group to:

- expand and improve capacity and quality in its air conditioner components business;
- expand and develop its motor vehicle components manufacturing business;
- increase working capital to maximise leverage of the Group’s manufacturing base;
- increase and drive research and development initiatives to innovate and improve efficiency and value for Shareholders;
- pay the costs associated with the Offer and the Listing on the ASX; and
- provide general working capital for the Group, including operational expenses.

The Company is committed to Listing on the ASX, as it will allow the Company to raise funds on an internationally recognised capital market, offer an internationally recognised corporate governance environment that the Directors believe will provide a suitable platform for the Group’s growth and provide a platform to establish, develop and promote its business and access to new markets. The Company also believes locating its head office in Australia will provide greater opportunities to access Australia’s world class research capability and enable the Company to further leverage its operational performance through this technology access.

An investment in the Company is subject to risks, such as product price variation risks, competition risks, loss of key customers and suppliers, risks in supplying cast iron products, quality control and loss of key personnel. Detailed information about these risks are set out in Section 9, which I encourage you to read carefully.

I believe that the journey ahead to realise the full potential of the Group will be an exciting one and on behalf of the Directors, I look forward to welcoming you as a Shareholder of Piston Machinery Ltd.

Yours sincerely,

Dennis Trlin
Chairman
INVESTMENT OVERVIEW
The information set out in this Section is intended to be a summary only and should be read in conjunction with the more detailed information appearing elsewhere in this Prospectus. In deciding whether to apply for Shares, you should read this Prospectus carefully and in its entirety. If you are in doubt as to the course you should follow, please consult your professional advisers.

2.1 Summary of the Offer

This Prospectus provides investors with the opportunity to participate in the initial public offering of Shares in Piston Machinery Ltd, a company incorporated in New South Wales, Australia.

(a) The Offer

<table>
<thead>
<tr>
<th>Key Offer Statistics</th>
<th>Minimum Subscription</th>
<th>Maximum Subscription</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer Price</td>
<td>$0.40</td>
<td>$0.40</td>
</tr>
<tr>
<td>Total number of Offer Shares to be issued</td>
<td>37,500,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Number of Shares held by Existing Shareholders1</td>
<td>112,500,000</td>
<td>112,500,000</td>
</tr>
<tr>
<td>Total number of Shares on issue at Completion of the Offer</td>
<td>150,000,000</td>
<td>162,500,000</td>
</tr>
<tr>
<td>Total cash proceeds to the Company from the Offer</td>
<td>$15,000,000</td>
<td>$20,000,000</td>
</tr>
<tr>
<td>Costs of the Offer to be paid from cash proceeds2</td>
<td>$2,661,000</td>
<td>$3,135,000</td>
</tr>
<tr>
<td>Market capitalisation at Completion of the Offer3</td>
<td>$60,000,000</td>
<td>$65,000,000</td>
</tr>
</tbody>
</table>

1. These Existing Shares may be subject to ASX escrow arrangements. See Section 11.19 for further details of these escrow arrangements.
2. See Section 11.8 for a detailed breakdown of costs of the Offer.
3. Calculated as the total number of Shares on issue on completion of the Offer multiplied by the Offer Price.

(b) Important dates

<table>
<thead>
<tr>
<th>Event</th>
<th>Date and Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lodgment of Prospectus with ASIC</td>
<td>5 September 2017</td>
</tr>
<tr>
<td>Opening Date</td>
<td>12 September 2017</td>
</tr>
<tr>
<td>Closing Date</td>
<td>10 November 2017</td>
</tr>
<tr>
<td>Issue of Offer Shares</td>
<td>17 November 2017</td>
</tr>
<tr>
<td>Expected dispatch of Holding Statements</td>
<td>22 November 2017</td>
</tr>
<tr>
<td>Shares expected to begin trading on ASX</td>
<td>28 November 2017</td>
</tr>
</tbody>
</table>

These dates are indicative only and may change. The Company reserves the right to vary the dates and times set out above subject to the Corporations Act and other applicable laws. The Company reserves the right to vary the times and dates of the Offer including to close the Offer early, extend the Offer or to accept late Applications, either generally or in particular cases, without notification. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law. Investors are therefore encouraged to submit their Application Forms as early as possible after the Offer opens.

(c) How to invest

Applications for Shares can only be made by applying online (recommended) or completing and lodging the paper based Application Form attached to or accompanying this Prospectus. Instructions on how to apply for Shares are set out in Section 6.2 of this Prospectus and on the Application Form.

(d) The Offer

The Prospectus is also issued for the purpose of qualifying the Company for admission to the Official List of ASX. The Company will apply to ASX for Listing and Official Quotation of its Shares, including the New Shares, within seven days after the date of the Prospectus.

If ASX does not grant permission for official quotation of the Shares within three months after the date of this Prospectus, or such longer period permitted by the Corporations Act, none of the Shares offered for subscription under this Prospectus will be allotted or issued and Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.
## 2.2 Overview of the Group

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>SUMMARY</th>
<th>FURTHER DETAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Who is the Company and what is its business?</strong></td>
<td>The Company is Piston Machinery Ltd, incorporated in New South Wales, Australia on 5 May 2017. Through its Operating Subsidiaries in the PRC, the Group manufactures and sells cast iron (and other alloys) components for use in air conditioner compressors and (commencing with a small volume in 2016) in commercial vehicles, to customers in the PRC. The Group has a commitment to producing high quality products by leveraging its ongoing investment in research and development. The Company has the potential for future growth by increasing its production capability to benefit from expected growth in the air conditioner and automotive production sectors in the PRC.</td>
<td>Sections 11.1(a) and 4.5</td>
</tr>
<tr>
<td><strong>Group Structure</strong></td>
<td>The Company is the holding company of the Group. The Company owns a 100% interest in a Hong Kong registered company, Piston Holding Limited and through that company, all the shares of the Group’s Operating Subsidiaries in the PRC, namely Zhaoqing Piston Machinery Co, Ltd (Piston Zhaoqing), Zhaoqing Jingtong Machinery Co, Ltd (Piston Jingtong) and Anhui Piston Machinery Technology Co., Ltd. (Piston Anhui). As these operating entities are based in the PRC, the Company is reliant upon the repatriation of profits from Piston Zhaoqing, its head Chinese operating entity, in order to provide returns to Shareholders.</td>
<td>Sections 4.3 and 11.1</td>
</tr>
<tr>
<td><strong>What is the Group’s history?</strong></td>
<td>(a) Piston Jingtong was incorporated in Zhaoqing city, Guangdong province, PRC, on 6 February 2007; (b) Piston Zhaoqing was incorporated in Zhaoqing city, Guangdong province, PRC, on 12 April 2007; and (c) Piston Anhui was incorporated in Wuhu city, Anhui province, PRC, on May 2011. Since 2007, these companies have operated as manufacturers and sellers of cast iron (and related alloys) components for air conditioner compressors in the PRC and have developed a strong market position. In the last 2 years, the Group has been developing a new business division to enter the motor vehicle supply chain in the PRC, manufacturing cast components for use in commercial vehicles. A small initial volume was achieved in 2016 for that division. During 2017, with a view to listing on ASX, these operating entities became wholly owned subsidiaries of the Company through its Hong Kong subsidiary. Since inception, the business of the Group has grown significantly, based in part on an emphasis on quality and continuing research and development (R&amp;D) that are central to the Group’s strategy.</td>
<td>Sections 4.2</td>
</tr>
<tr>
<td><strong>Why is the Company seeking admission to the Official List of the ASX?</strong></td>
<td>The Company seeks to be listed on the ASX: (a) to raise funds that will be used to expand and diversify the Group’s business, including expanding its motor vehicle components business; (b) to gain liquidity in its shares (by means of trading on the ASX) and exposure to international equity markets through a respected stock exchange in a similar time zone;</td>
<td>Sections 4.6</td>
</tr>
</tbody>
</table>
Why is the Company seeking admission to the Official List of the ASX?

- (c) to set best practice corporate governance standards and procedures through the constitution of audit, risk and remuneration committees;
- (d) to set standards of independence to management;
- (e) to provide the Company with greater access to Australia's research and development resources and capabilities. As a part of its business model, the Group seeks to drive innovation and considers that developing relationships with Australian Universities, as well as a presence in Australia, will facilitate this strategy; and
- (f) the China Australia Free Trade Agreement has increased the frequency and volume of trading activities between the PRC and Australia. As such, the Australian market has gained more awareness of the benefits that trading with Chinese corporations can bring. The Company will use its Australian base to seek direct import opportunities for its products into Australia.

Business Model

Summary of Business Model

The Company aims to generate value for Shareholders by sale of its manufactured cast components for use in air conditioner compressors and (subject to ongoing development) motor vehicles, assembled in the PRC.

The Group focusses on two markets, namely air conditioner compressor components and (commencing in the last 2 years) motor vehicle components.

What industry does the Group operate in?

The Group is a cast iron and related alloys manufacturer, supplying components for air conditioner compressors and more recently, components for commercial motor vehicles, in the PRC. While the Group supplies these products to customers in the PRC, they are incorporated downstream into products exported from the PRC to many parts of the world. As a result, the Group’s market opportunity is a global one, through export activities of its customers.

What is the Company’s strategy for growth?

The Company aims to build on and strengthen its strong position in the air conditioner compressor market, while expanding its new motor vehicle components business in the growing Chinese motor vehicle manufacturing sector. The Company believes this strategy will deliver value for Shareholders. The Company is also looking at potential opportunities in the heavy machinery and equipment market in Australia and elsewhere. This strategy is based on leveraging the Group’s strong manufacturing base.

Where are the Group’s operations located?

The Group operates manufacturing, R&D and warehousing facilities in Zhaoqing City, Guangdong province, PRC and in Wuhu city, Anhui province, PRC. The Group's corporate head office is in Sydney, Australia.

How does the Group generate income?

The Group generates the vast majority of its income through two primary sources:

- (a) manufacturing and sale of cast iron (and related alloys) components for use in air conditioner compressors (mostly, rotary compressors); and
- (b) manufacturing and sale of cast iron (and related alloys) components for use in motor vehicles (at present, mostly commercial vehicles).
What is the market opportunity for the Group?

(a) The Company sees opportunity to grow its air conditioner components business by:
   (i) capitalising on long term growth prospects in the air conditioner market, globally; and
   (ii) investment in plant and equipment to increase capacity, volume and efficiency.

(b) The Company also sees a significant opportunity to grow its motor vehicle components business by investment in plant and equipment to increase the volume and scope of its products, on the back of:
   (i) it’s strong manufacturing base; and
   (ii) the highly competitive but growing motor vehicle supply chain in the PRC.

(c) The Company intends to consider opportunities to import products into Australia, in particular in the heavy machinery and equipment sector, in relation to which a sample order was received during 2017 for a mixing blade for use in a concrete mixing plant with potential to last 3 times longer than comparative products.

What are the Group’s products?

The Group’s product range includes 147 discrete cast components, divided between air conditioner compressor components and commercial motor vehicle components. Some of the Group’s key products are listed below.

<table>
<thead>
<tr>
<th>Product</th>
<th>2014 Revenue ($’000)</th>
<th>2015 Revenue ($’000)</th>
<th>2016 Revenue ($’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pistons</td>
<td>21,126</td>
<td>22,140</td>
<td>19,388</td>
</tr>
<tr>
<td>Casting</td>
<td>10,357</td>
<td>10,235</td>
<td>15,858</td>
</tr>
<tr>
<td>Processing</td>
<td>7,279</td>
<td>10,922</td>
<td>12,798</td>
</tr>
<tr>
<td>Counterweights</td>
<td>6,212</td>
<td>6,057</td>
<td>5,225</td>
</tr>
<tr>
<td>SUB TOTAL</td>
<td>44,973</td>
<td>49,354</td>
<td>53,269</td>
</tr>
</tbody>
</table>

The Group received its first order for automotive products in 2016, after 2 years of development. During 2016, the Group sold 1,978 units, consisting in each case of rear and middle decelerator shells and bearing caps, generating $514,858 (RMB2.45 million) in revenue for the Group.

Marketing and Sales Channels

The Group sells its products to customers in the PRC, whose rigorous quality standards and procurement processes the Group has successfully satisfied over a number of years. To this end, the Group has a number of supply agreements with key customers, usually renewed annually and in most cases, over multiple years.
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<th>TOPIC</th>
<th>SUMMARY</th>
<th>FURTHER DETAIL</th>
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</thead>
</table>
| Who are the Group's customers? | The Group's five largest customers of its air conditioner components business are Guangdong Meizhi (GMCC) Equipment Co Ltd, Zuhai Landa Compressor Co Limited, Guangdong Meizhi (GMCC) Refrigeration and Equipment Co Ltd, Anhui Meizhi (GMCC) Precision Manufacturing Co Limited and Panasonic Wanbao Appliances Compressor (Guangzhou) Co Limited. The Group's customers in this market have an aggregate 85.9% market share in the PRC.  
In its motor vehicle components business, the Group's new motor vehicle division has supplied a small volume of products to SAIC Iveco Hongyan, Chongqing Hongyan Motor Co (a Chinese manufacturer of heavy duty trucks and special-purpose vehicles) and Dongfeng Motor Liuzhou. | Sections 4.12 |
| Who are the Group's competitors? | In the Group's air conditioner components business, there are up to 100 competitors in the PRC, including Zhejiang Baida Precision Manufacturing Corp, Shanxi Huaxiang Group Co., Ltd, Shanghai Zhaofeng and others. In comparison with these competitors, the Directors believe that the Group offers a broad range of products, covering all 6 key cast compressor components. By offering a broad range of components (and having regard to other factors set out in Section 4.14), the Group enjoys a relative advantage. | Sections 4.14 and 4.16 |
| Research and development | The Group has committed to its own research and development projects, as well as partnerships with others, to continuously and systematically upgrade its manufacturing technology. The Group currently employs more than 30 staff in its R&D department and is engaged in ongoing research and development projects. | Section 4.14(f) |
| Facilities and Assets | The Group operates three foundries and 11 engineering facilities, with extensive machining capabilities, occupying approximately 33,425 square metres of facilities, offices and factories, located in Zhaoqing city in the Pearl River Delta region and Wuhu city in Anhui province, PRC. | Section 4.7 |
| Material Contracts | The Group has many contracts across its diverse operations. Key material contracts are summarised below. | Section 10 |
| Debt Facility and related security and guarantee agreements | The Operating Subsidiaries have several bank facility, asset lease and debt finance facilities on foot, secured by personal guarantees from some Directors (in some cases) and by security over land-use rights, buildings and plant and equipment, of the Group. As at 31 December 2016, the outstanding balance on all bank facilities is $39.3 million. See "Debt Rollover Risk" below. | Section 10.1 |
Agreements in respect of land use rights

The Group's Operating Subsidiaries in the PRC have entered into land use agreements pursuant to which relevant local governments have transferred land use rights to properties occupied by the Group, to Group entities. Each agreement has a term of up to 50 years from the date of grant. Under the agreements, the Group entities concerned must pay a land use fee and/or infrastructure use fee to the relevant local authority. All such fees have been paid prior to the date of this Prospectus.

Customer Contracts

The Operating Subsidiaries have entered into supply agreements with customers. These are usually renewed annually and in most cases set a framework for orders during their year of operation. The agreements do not generally set minimum purchase volumes and generally, pricing and other key terms are agreed on an order-by-order basis.

Consulting Services Agreement between Eagle IG Hong Kong Limited and Piston Zhaoqing

Under this agreement, Eagle IG Hong Kong Limited (Eagle) agreed to provide consulting services to Piston Zhaoqing to assist it with listing on ASX. In consideration for these services, the Company has issued 3,750,000 Shares to Eagle.

Lead Manager Agreement

The Company and AGC Capital Securities Pty Ltd ABN 36 168 909 260 (AFSL Number: 481024) (AGC Capital Securities) entered into a mandate letter on 14 August 2017 (Mandate Letter) pursuant to which AGC Capital Securities was appointed as the exclusive lead manager in respect of the Offer.

In consideration for AGC Capital Securities' services under the Mandate Letter, AGC Capital Securities is entitled to the following fees:

(a) a monthly advisory fee of $20,000 (plus GST) for each month up to a maximum of $60,000;
(b) a placement fee of 5% (plus GST) on the amount of capital raised under the Offer; and
(c) a management fee of 2% (plus GST) on the amount of capital raised under the Offer.

Under the terms of the Mandate Letter, the Company provides AGC Capital Securities with certain indemnities in relation to any claim, demand, loss, expense, liability or action arising directly or indirectly from or relating to the Offer, the Prospectus and AGC Capital Securities’ activities contemplated in the Mandate Letter, in each case to the fullest extent permitted by law.

Both parties have the right to terminate the Mandate Letter in certain circumstances. In the event that the Company terminates the Mandate Letter other than for cause at any time after one month from the date of execution of this Mandate Letter, or AGC Capital Securities terminates this Mandate Letter for cause, AGC Capital Securities will be entitled to be paid the sum of $30,000.
Convertible Loan Agreements with Seed investors

During 2016-2017, the Group obtained unsecured, interest-free loans from ten seed investors, who agreed to convert their loans into Shares immediately prior to the Prospectus being lodged. To this end, loans of $2,649,000 have been repaid by the issue of 6,650,000 Shares prior to lodgement of this Prospectus.

Related Party Loans

As at 31 December 2016, the persons listed below advanced, interest free and unsecured, $3,313,000 to the Group:

<table>
<thead>
<tr>
<th>Name</th>
<th>Relationship</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liping Liu</td>
<td>Mr Pingfan Jia'a wife</td>
<td>598,000</td>
</tr>
<tr>
<td>Zheng Pan</td>
<td>Senior Management</td>
<td>598,000</td>
</tr>
<tr>
<td>Lei Wang</td>
<td>Director</td>
<td>1,175,000</td>
</tr>
<tr>
<td>Pingfan Jia</td>
<td>Director</td>
<td>887,000</td>
</tr>
<tr>
<td>Tangshan Qiu</td>
<td>Former Shareholder</td>
<td>55,000</td>
</tr>
</tbody>
</table>

Liping Liu, Lei Wang and Mr Pingfan Jia have agreed not to recall those loans, that remained unpaid as of the date of this prospectus, for 12 months after the date the Company is Listed and not to do so after that date if it would be to the detriment of the Group’s financiers, any dividends payable by the Company in accordance with its dividend policy or the Group's cash flows required to ensure that the Group continues to operate in the ordinary course. See also “What related party transactions has the Group entered into?” below.

University collaboration agreements

The Operating Subsidiaries have entered into agreements with several universities, including the Tianjin Polytechnic University and Changzhou Vocational Institute of Light Industry. These agreements facilitate cooperation between the Group and those universities for the development of manufacturing technology, the resulting intellectual property being available to the Group for its commercial purposes and to the universities for research purposes. Neither the Group nor the universities transfer to the other, ownership of their own intellectual property.

In Australia, in July 2017, the Company entered into a non-binding Memorandum of Understanding (MOU) with the University of New South Wales (UNSW). The MOU stipulates a term of 12 months during which the parties will explore means of collaboration and to that end, if agreement is reached, enter into a formal agreement. The scope of collaboration includes commercialisation of current research achievements of UNSW in precision manufacturing (phase 1) and then to further develop research outcomes achieved (phase 2).
The Company has agreed (in principle) with the Guangdong Nanyue Bank to restructure the bank loans as follows:

(a) $1.9 million (RMB10 million) due in November 2017, will be converted to a 1 year working capital loan after repayment;
(b) $19.2 million (RMB100 million) due in May 2018 is to be repaid and renewed with four installments one month before the expiry date;
(c) $13.4 million (RMB70 million) due in November, December 2017 and May 2018, will be converted to a 1 year working capital loan after repayment; and
(d) $3.8 million (RMB20 million) due in November 2017 will be repaid by offsetting a cash bank deposit.

In May 2017, the Zhaoqing Government issued a "Notice in relation to providing bridging facilities to help small and medium enterprises bridge bank loans which are in the process of being renewed". Each bridging facility is expected to be within a limit of $3,842,000 (RMB20 million) and the period to be no more than 10 days. The daily interest rate of the bridging facility is 0.02%~0.03% p.a. for the first two facilities and 0.04%~0.045% p.a. after the first two facilities. The Group has historically met the criteria for use of these bridging facilities and the Company expects going forward that the Group will continue to access these facilities to facilitate debt facility renewals.

Debt Rollover Risk

The Group has significant bank loan liabilities of $39.3 million, of which $38.4 million is from Guangdong Nanyue Bank as at 30 June 2017. It is imperative that the Group agree with bank lenders to renew bank debt facilities in 2017-2018, failing which the Group will experience strain on its working capital and its solvency may be threatened. Based on previous debt facility renewals and comfort from the Group's bankers, the Company believes that its bank lenders will continue to support it into 2018 and beyond. These facilities, as with PRC bank debt facilities generally, must be repaid by their maturity date, before renewal and redraw.

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Cash flow risks

Economic conditions in the PRC are experiencing a downturn and banks there have tightened their lending policies. As a result, some small to medium sized businesses may face cash flow risks that lead to reductions of sales, declines in profits and even bankruptcy. The Group may be confronted by these risks and experience difficulty in recovering payments due by customers impacted by these conditions. The Group’s strong investment in R&D and offers of longer payment terms to customers has, at times, put the Group’s working capital under pressure. The Offer is aimed, in part, at alleviating this problem.
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<th>TOPIC</th>
<th>SUMMARY</th>
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<tr>
<td>Unpaid social security</td>
<td>Pursuant to PRC laws, employers must make contributions to social security insurance and a housing provident fund. If an employer fails to register for these contributions with the relevant authorities or to make the contributions, the relevant authority may issue penalties and recover sums due. As at the date of this Prospectus, the Group has not yet paid social security insurance and housing provident fund contributions for some of its employees. The Chief Executive Officer, Mr Pingfan Jia, has provided a written undertaking that he will personally bear the risk of resulting fines or orders to comply, such that the business of the Group will not be affected.</td>
<td>Section 9.2(n)</td>
</tr>
<tr>
<td>Risk of oppression of minority shareholders</td>
<td>Immediately after the Offer, Existing Shareholders will control approximately 75% of Shares on issue (of which 62.02% will be held through entities controlled by Directors), assuming that the Minimum Subscription is raised or approximately 69.23% of Shares on issue (of which 57.25% will be held through entities controlled by Directors) if the Maximum Subscription is raised. Of these, Existing Shareholders, if they act together, will be able to exert a significant degree of influence over the Company's management and affairs and over matters requiring Shareholder approval, including the election of Directors and approval of significant corporate transactions.</td>
<td>Section 9.2(c)</td>
</tr>
<tr>
<td>Foreign Exchange Risk</td>
<td>The Group’s profitability will be generated in the PRC with its functional currency being Chinese Yuan. Economic or political instability in the PRC (which may be caused by a number of unforeseeable events) may have an adverse effect on the Company. The Company is not currently hedging against exchange rate fluctuations, and consequently the Company will be at the risk of any adverse movement in the Chinese Yuan to AUD exchange rate.</td>
<td>Section 9.3(f)</td>
</tr>
<tr>
<td>Single Sector exposure</td>
<td>The Group’s core business is cast iron air conditioner compressor components supplied primarily to large customers in the PRC. While this sector is relatively stable, the Company is materially exposed to any adverse conditions that may impact this industry. During 2015 for example, the air conditioner sector declined on weak demand, but has since recovered. The Group’s strategy to diversify into the motor vehicle sector is still in its early stages and only a small number of orders and immaterial revenue has been generated to date. There is no guarantee that the Group’s automotive expansion and diversification strategy will be successful.</td>
<td>Section 9.2(d)</td>
</tr>
<tr>
<td>Customer Concentration</td>
<td>The Group has very significant customer concentration. Between 2014 and 2016, revenue generated from its top two customers represented over 70% of total revenue. However, customer concentration for the above two customers has declined from 86% in FY2014 to 72% in FY2016 due to the acquisition of new customers in FY2015 and FY2016.</td>
<td>Section 9.2(e)</td>
</tr>
</tbody>
</table>
**Product price variation**

Prices of the Group's products are affected by variations in market supply and demand. A decrease in commodity prices or a decrease in demand for the Group's products, whether as a result of the actions of competitors or general economic conditions, may result in the Group having to reduce the prices of its products, reducing revenue and profit. However, it is likely that the Group's competitors will be affected in the same way as the Group.

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**Repatriation of dividends**

As the Group generates its profit through the Operating Subsidiaries in the PRC, the ability of the Company to pay dividends to Shareholders will be dependent upon the Operating Subsidiaries' ability to distribute profits from the PRC, through Hong Kong, to the Company. Piston Zhaoqing is a wholly foreign-owned enterprise (WFOE) and under Chinese law, it may remit profits generated in the PRC to countries outside the PRC if certain legal requirements are complied with. These restrictions are subject to the discretion of the PRC government. Any measures to inhibiting the ability of WFOE's to remit profits out of the PRC will adversely affect the Company's ability to pay dividends to Shareholders.

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**Tax Treaty Benefits**

PRC tax law prescribes a withholding tax (WHT) of 10% on dividends and other PRC sourced passive income repatriated to PRC non-resident enterprises, unless there is an applicable tax treaty providing otherwise. Pursuant to a treaty between Hong Kong and the PRC effective from 21 August 2006, a company incorporated in Hong Kong will be subject to WHT of 5% on dividends it receives from its PRC subsidiary if it holds more than a 25% interest in the PRC subsidiary (otherwise the WHT remains at 10%). Piston Holding Limited (the Company's Hong Kong subsidiary) may qualify for the 5% WHT treatment, but if the policy position changes, the WHT could increase, adversely impacting on the Company's performance.

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**Liquidity of Securities**

As at the date of this Prospectus, about 90.76% of the Company's Shares are held (through controlled entities) by the Directors and former directors. These Shares will represent 62.33% of Shares on issue if the Maximum Subscription is achieved and 68.07% of Shares on issue if the Minimum Subscription is achieved. These Shares may be classified by ASX as restricted securities. The absence of any sale of these Shares by the Existing Shareholders during the escrow period may cause or at least contribute to limited liquidity in the market for the Company’s Shares.

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**Input costs**

The Company’s products are largely dependent on the cost and supply of various commodities such as iron, steel, electrolytic nickel, copper, manganese, ferromolybdenum, chromium, silicone, magnesium, and antimony, the prices of which are determined by volatile world commodity markets. If the Group is unable to secure adequate supplies of required inputs at appropriate prices or if the quality of the available supplies is not acceptable, the financial performance of the Company may be adversely impacted.
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<tbody>
<tr>
<td>Dependence on Key Personnel</td>
<td>The success of the Company depends to a significant extent on the ability, performance and experience of the Group’s key personnel. The loss of key personnel or an inability to recruit or retain suitable replacement or additional personnel may impact the Company’s performance.</td>
<td>Section 9.2(II)</td>
</tr>
<tr>
<td>Product liability risk</td>
<td>The Group’s products are aggregated into air conditioners and motor vehicles. As these are mechanical devices, their failure can cause injury or even death. Should such an event be linked to the Group’s products, considerable reputational damage may be caused to the Group from the perspective of its suppliers, customers and regulators. This may lead to loss of contracts for the supply of products and significant product recall costs, compensation payments and payment of penalties. All of these circumstances may have a material adverse effect on the Company’s revenue, profitability and growth.</td>
<td>Section 9.2(j)</td>
</tr>
<tr>
<td>Loss of key customers</td>
<td>The Group could lose key customers due to a range of events, including as a result of failure to renew a supply contract, weakening of customer relationships, disputes with customers, failure to remedy a contractual breach, failure to comply with health, safety and environmental laws and regulations, failure to deliver products on time, consolidation of customers, insolvency of customers, increased competition or lack of raw material supply. These could materially adversely affect the Company.</td>
<td>Section 9.2(k)</td>
</tr>
<tr>
<td>Competition</td>
<td>The components industry for residential air conditioners is competitive and in the case of motor vehicles, subject to rapid change and strong competition. The Group competes with other businesses and companies, some of which have greater financial and other resources than the Group. There is a risk that the Group’s competitors may develop products, expand production or benefit from government intervention, which could adversely affect the Group’s competitiveness and in turn, cause decline in revenue or profitability of the Company’s business.</td>
<td>Section 9.2(s)</td>
</tr>
<tr>
<td>Limited insurance coverage</td>
<td>In the PRC, it is not customary for businesses to take out extensive insurance protection. While the Group has asset insurance, compulsory vehicle insurance and public liability insurance for some of its employees, the Group’s insurance is not as comprehensive as is commonly the case with Australian operations. The Group also does not have insurance covering personal injury or death of all of its employees. Any uninsured loss or damage, litigation or business disruption may result in substantial cost to the Company and its subsidiaries, which could have a material adverse effect on the Group, its net assets, financial condition, operations and results.</td>
<td>Section 9.2(dd)</td>
</tr>
<tr>
<td>Approvals, permits and licences</td>
<td>The Group requires certain licences and approvals to conduct its business. These licences are granted at the discretion of the relevant PRC authorities and the criteria for eligibility may change. If the Group is unable to meet such criteria and fails to obtain the grant or renewal of any required licences, permits or approvals or if</td>
<td>Section 9.2(ii)</td>
</tr>
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</table>
any of them are withdrawn, the business of the affected entity and the Group as a whole may be interrupted. The Group may be subject to penalties should businesses continue without such licences.

**Tax liability risk**

Entities in the Group have been taxed at a preferential corporate income tax rate of 15% (instead of 25%) under tax incentives for companies with "high technology expertise". Should PRC tax authorities cease to classify those entities as qualifying for the preferential tax treatment, the higher corporate income tax rate of 25% will apply.

The Group has unpaid tax liability incurring during 2014, 2015 and 2016 estimated at $1,701,493, represented by $1,179,493 in Value Added Tax (VAT) liability and $522,064 in Corporate Income Tax liability. These amounts have been recognised in the financial statements and corresponding financial information set out in Section 7. The Company’s CEO, Mr Pingfan Jia, has provided a written undertaking that he will personally bear the risk of resulting penalties or orders to comply, such that the business of the Group will not be affected, unless that undertaking is not honoured. Further, the Directors have agreed to notify the tax authorities and propose to work on terms of settlement with them and consider that the risk of the imposition of significant penalties is low.

**Enforcement of contracts in foreign jurisdiction**

The Group has entered into contracts that are material to its business and governed by the laws of the PRC. Should a contractual dispute result in court action, the procedure in and outcome from courts in the PRC may be different than in Australia.

**Payment of dividends**

Payment of future dividends will depend on matters such as the future profitability and financial position of the Group, currency exchange rates and the other risk factors set out in this Prospectus. Whilst the Group has produced net profits for each of the past three financial years as set out in the audited accounts in Section 7, there can be no assurance that the Group will achieve profitability in the future and be able to pay dividends.

**Fluctuations in PRC’s economic, political and social conditions**

Since 1978, the PRC has implemented various reforms to its economic system. As a result of the reforms, the PRC’s economy has been growing significantly for the past three decades. However, given the unprecedented and experimental nature of the reforms, they are potentially subject to refinement and changes as the PRC government deems fit. Political, economic and social factors are also expected to play a role in refinement and changes of these policies. The possibility of such refinement and adjustment may consequently have a material impact on the Group’s operations in the PRC and in turn, its financial performance.

**Uncertainties with PRC legal system**

The Company’s Operating Subsidiaries are generally subject to laws and regulations applicable to foreign investment in the PRC. However, as the PRC legal system continues to evolve, the interpretation of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit the legal protections available to the Group.
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<tr>
<td><strong>Government control of currency conversion</strong></td>
<td>The PRC government imposes controls on the convertibility of RMB into foreign currencies and in certain cases, the remittance of currency out of the PRC. The Group receives all of its revenue in RMB in the PRC. Under existing PRC foreign exchange regulations, payment of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions can be made in foreign currencies without approval from the PRC State Administration of Foreign Exchange (SAFE), by complying with certain procedural requirements. If this changes, the Company may experience delays or be subject to additional taxation on repatriation of Group profits to Australia.</td>
<td>Section 9.3(d)</td>
</tr>
<tr>
<td><strong>Cross-border enforcement of Shareholders and/or Directors’ obligations</strong></td>
<td>The Executive Directors and the controller of the major shareholder of the Company (Mr Pingfan Jia) currently resides in the PRC. While the Australian legal obligations on Directors and shareholders are applicable and enforceable even to those who are resident outside Australia, it is harder for the Company to constantly ensure that those obligations are being complied with. In the event of any breach of obligation by the Directors or Shareholders, the Company's financial position may be adversely affected.</td>
<td>Section 9.3(g)</td>
</tr>
<tr>
<td><strong>General Risks</strong></td>
<td>The Company's business is also subject to general risk factors. Such risks apply to companies generally, but may materially adversely impact the Company and its business or the value of its securities. More information about such risks is set out in Section 9.4. Some of these risks include:</td>
<td>Section 9.4</td>
</tr>
<tr>
<td>(a) <strong>Securities investments and share market conditions</strong></td>
<td>There are risks associated with any securities investment. The prices at which the securities trade may fluctuate in response to a number of factors and may be less than the Offer Price under this Prospectus.</td>
<td></td>
</tr>
<tr>
<td>(b) <strong>Economic risk</strong></td>
<td>Changes in Australia, China, Hong Kong, United States and world economic conditions may adversely affect the financial performance of the Company.</td>
<td></td>
</tr>
<tr>
<td>(c) <strong>Policy</strong></td>
<td>Access to international markets may be limited in the future, depending on trade policy. Government policy or regulatory change may adversely impact the Company.</td>
<td></td>
</tr>
<tr>
<td><strong>Key Dependencies</strong></td>
<td>The above is not intended to be an exhaustive list of the risk factors to which the Group or investors in the Company are or may be exposed. The factors specifically referred to above may in the future materially affect the viability or performance of the Company and the value of its securities.</td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>The Group is at a very early stage of diversifying and is still focussed on the air conditioner sector and is therefore affected by developments in that sector.</td>
<td>Section 4.15</td>
</tr>
<tr>
<td>(b)</td>
<td>The Group purchases raw material inputs that are subject to fluctuations in commodity prices.</td>
<td></td>
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<tr>
<td>TOPIC</td>
<td>SUMMARY</td>
<td>FURTHER DETAIL</td>
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</tr>
<tr>
<td><strong>Competitive Advantage</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing strength</td>
<td>The Group offers a wide range of products with consistent high quality under leading quality management systems, for long term customers.</td>
<td>Section 4.14(a)</td>
</tr>
<tr>
<td>High barriers to entry</td>
<td>New entrants to the air conditioner compressor component and motor vehicle supply chains in the PRC face high barriers to entry, including technical barriers, complex and rigorous supplier on-boarding processes, high start-up costs and lack of brand recognition.</td>
<td>Section 4.14(b)</td>
</tr>
<tr>
<td>Strong market position in key market</td>
<td>The Group is ranked amongst the top three suppliers in the Chinese rotary air conditioner compressor components market, with a 15% market share.</td>
<td>Section 4.14(c)</td>
</tr>
<tr>
<td>Attractive growth opportunities</td>
<td>Significant organic growth opportunities exist for the Group as a result of the growth in demand for air conditioners and motor vehicles in the PRC and around the world and the potential to develop new products that can be leveraged from the Group’s versatile manufacturing base.</td>
<td>Section 4.14(d)</td>
</tr>
<tr>
<td>Research and development</td>
<td>The Group’s strong R&amp;D focus and investment differentiates its value proposition to automotive and air conditioner component aggregators in the PRC.</td>
<td>Section 94</td>
</tr>
<tr>
<td>Geographic location</td>
<td>Piston Zhaoqing and Piston Jingtong’s production facility is located in the Pearl River Delta area, which hosts over 50% of rotary air conditioner compressor manufacturing capacity in the PRC. This means that the Group’s key Operating Subsidiaries are close to key customers, as Guangdong Province accounts for two thirds of the PRC’s air conditioner manufacturing industry revenue. Piston Zhaoqing and Piston Jingtong are also close to road infrastructure, reducing transport costs.</td>
<td>Section 4.14(g)</td>
</tr>
<tr>
<td>Wide product range</td>
<td>The Group has developed a series of 147 cast iron components that cover a comprehensive range of rotary compressors. The Company considers that its wide range of products has helped entrench the Group with customers (together with other factors mentioned in Section 4.14).</td>
<td>Section 4.14(a)(i)</td>
</tr>
<tr>
<td><strong>Key Investment Features</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mature business generating cash-flows to help fund growth</td>
<td>The Group’s air conditioner compressor components business has been operating since 2007. The business has a strong market presence in the PRC in a relatively stable industry, generating strong revenues and cash-flows to support growth of the Group’s newer motor vehicle components business.</td>
<td>Section 4.2</td>
</tr>
<tr>
<td>Markets with strong potential for growth</td>
<td>Air conditioner market</td>
<td>Section 3.2 and 3.3</td>
</tr>
</tbody>
</table>

The Company believes that key drivers of the air conditioner market will generate opportunities for growth for some time. The Company expects this market to grow at 2.1% per annum to 2021, increasing to 4% per annum by 2030. This growth is expected to be driven in the PRC by the developing domestic economy, rising urban household income levels and the increasing number of high-income households in the PRC, as well as global growth fundamentals (such as urbanisation) supporting the air conditioner sector.
Directors and Senior Management

Dennis Trlin - Non-executive Chairman

Dennis Trlin was appointed as a director of the Company immediately prior to lodgement of the Prospectus. With a strong background in corporate advisory and research, Mr Trlin began his career as an equities analyst, with expertise in equities research.

Mr Trlin is currently a director of Value Set Investments, a corporate advisory firm to ASX listed companies and start-ups.
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<th>TOPIC</th>
<th>SUMMARY</th>
<th>FURTHER DETAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peter Wong - Non-executive Director</td>
<td>Mr Wong was appointed as a Director of the Company immediately prior to lodgement of the Prospectus. Mr Wong has 30-years' experience in the financial services industry across a wide spectrum of business functions, including audit, taxation, finance, operations, technology, HR, risk management, compliance and control. He began his career at Deloitte and then moved to PwC. He then assumed senior positions managing large portfolios of functions and</td>
<td>Section 5.1</td>
</tr>
<tr>
<td>Pingfan Jia - Executive Director and Chief Executive Officer</td>
<td>Mr Jia is the founder of the Group. He studied at China University of Geosciences, obtaining a bachelor's degree in Petroleum Geology majoring in Geology, in 1988. He then became Head of the Department of Research in the Northern China Petroleum Geology Bureau. In June 2000, he moved to Guangzhou Weifeng Internal Combustion Engine Machinery Co., Ltd, where he gained further commercial experience. In 2007, he was appointed as General Manager and Chairman of Piston Zhaqing, which he founded.</td>
<td>Section 5.1</td>
</tr>
<tr>
<td>Lei Wang - Executive Director</td>
<td>Mr Wang studied at the Guizhou Aerospace Industry School (also known as Zunyi Astronautics Industrial School). He graduated with a Bachelor's degree in Human Resource Management in 1993. Mr Wang gained experience as a manager at the state owned Chaohui Electric Factory and as a Deputy General Manager, CFO and Company Secretary of Guizhou Aerospace Electric Co Ltd, where he was responsible for matters such as restructuring, finance and personnel. Mr Wang then became the Executive Vice President of Beijing Dexin Investment Management Co Ltd, a private equity company, where he oversaw and implemented various investment projects and worked on initial public offerings and finance in the PRC, before being appointed as deputy Chairman of the Group in 2013.</td>
<td>Section 5.1</td>
</tr>
<tr>
<td>Xianjun Yuan - Executive Director</td>
<td>Mr Yuan studied engineering at the Luoyang Institute of Science and Technology, majoring in equipment casting processes, graduating in 1985. Mr Yuan is an expert in wear resistant materials, with a background in business and technical management spanning 30 years. Mr Yuan began his career at the Nanjing Automotive Manufacturing Factory and remained there for 15 years, holding positions as a technical lead, designer, workshop lead, assistant general manager and deputy general manager. After leaving Nanjing Automotive Manufacturing Factory in 2010, Mr Yuan served as Deputy General Manager of Operations at CRRC Corp Ltd, a publicly listed rolling stock manufacturer, for 6 years. During 2016, Mr Yuan joined Piston Zhaqing as General Manager, responsible for the company's operations and R&amp;D. Mr Yuan co ordinates Group R&amp;D and product development, focussing on wear resistant materials and the Group's counterweights and piston products.</td>
<td>Section 5.1</td>
</tr>
<tr>
<td>Peter Wong - Non-executive Director</td>
<td>Mr Wong was appointed as a Director of the Company immediately prior to lodgement of the Prospectus. Mr Wong has 30-years' experience in the financial services industry across a wide spectrum of business functions, including audit, taxation, finance, operations, technology, HR, risk management, compliance and control. He began his career at Deloitte and then moved to PwC. He then assumed senior positions managing large portfolios of functions and</td>
<td>Section 5.1</td>
</tr>
</tbody>
</table>
### Who are the Group's senior management?

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company secretary and Public officer</td>
<td>Keekee Wang</td>
<td>Ms Wang has over ten years' professional experience, five of which were with PwC Australia, where she worked in corporate and commercial legal services and in immigration. Ms Wang is a practicing lawyer and a Registered Migration Agent. Ms. Wang holds a Bachelor of Law, a Bachelor of English Language and Literature from Liaoning University in China and a Diploma of Law (LPAB) and a Master of Law in Australia from the University of Sydney. She is admitted to the Supreme Court of New South Wales and a member of the Law Society of New South Wales.</td>
</tr>
<tr>
<td>Vice General Manager of Piston Zhaoqing</td>
<td>Yixun Xu</td>
<td>Mr Xu is an engineer with more than 30 years' experience in the compressor industry, with experience in both management and marketing. He has extensive knowledge and expertise in product development and applications. In his role as General Manager, Mr Xu oversees the air conditioner compressor business and assists with strategic management of this business.</td>
</tr>
<tr>
<td>Supervisor of Piston Zhaoqing</td>
<td>Guangyu Wang</td>
<td>Mr Wang became the Assistant General Manager and Supervisor of the General Affairs Department of Piston Zhaoqing in March 2013. Previously, Mr Wang worked at Zhongxing Tong Xun Pty Ltd as an engineer, before assuming a role as an engineer at GMCC Meizhi. Mr Wang's academic qualifications include Bachelors of Industrial Engineering from Henan Polytechnic University and a Master's Degree in Machinery Engineering from Chongqing University.</td>
</tr>
<tr>
<td>Finance Manager of Piston Zhaoqing and Group Chief Financial Officer</td>
<td>Daxi Xiong</td>
<td>Mr Xiong has been the Group's Finance Manager since 2010 and holds a CICPA (China Certified Public Accountant) Certificate. He has strong accounting, financial management and internal control.</td>
</tr>
</tbody>
</table>
experience. In his role as Finance Manager, Mr Xiong oversees the Group’s accounting, audit and financial functions and liaises with government and bank officials to help implement the Group’s strategic business plan.

### Interests and benefits of Director and senior management in the Company

#### What are the interests of the Directors in Piston prior to and following the Offer?

As at the date of this Prospectus, the Directors and former Directors of the Company hold Shares representing 90.76% of all Shares on issue.

The Directors’ current shareholdings at the date of this Prospectus, along with their percentage shareholdings assuming the Minimum and Maximum Subscriptions respectively, are set out in the table below:

<table>
<thead>
<tr>
<th>Director</th>
<th>Shares held directly or indirectly</th>
<th>% of issued Shares at date of Prospectus</th>
<th>% of issued Shares at completion of Minimum Raising</th>
<th>% of issued Shares at Completion of Maximum Raising</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dennis Trlin</td>
<td>1 Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Pingfan Jia</td>
<td>64,360,879</td>
<td>57.21%</td>
<td>42.91%</td>
<td>39.61%</td>
</tr>
<tr>
<td>Lei Wang</td>
<td>27,583,234</td>
<td>24.52%</td>
<td>18.39%</td>
<td>16.97%</td>
</tr>
<tr>
<td>Xianjun Yuan</td>
<td>1,089,705</td>
<td>0.97%</td>
<td>0.73%</td>
<td>0.67%</td>
</tr>
<tr>
<td>Peter Wong</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Notes:
1. Through a 70% interest in GdWill Trading Co. Ltd
2. Through a 30% interest in GdWill Trading Co. Ltd
3. Through a 27.6% interest in Honoas Trading Co. Ltd

#### What significant benefits are payable to Directors, other related parties and promoters in connection with Piston or the Offer?

<table>
<thead>
<tr>
<th>Director</th>
<th>Directors’ Fees</th>
<th>Other Remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dennis Trlin</td>
<td>$40,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Pingfan Jia</td>
<td>$30,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Lei Wang</td>
<td>$30,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Xianjun Yuan</td>
<td>$10,000</td>
<td>$53,788 (280,000 RMB) fixed salary</td>
</tr>
<tr>
<td>Peter Wong</td>
<td>$40,000</td>
<td>Nil</td>
</tr>
</tbody>
</table>

#### What related party transactions has the Group entered into?

Other than the employment agreements or engagement letters appointing the Directors, there are $3,313,000 in unsecured, interest free loans advanced to the Group.

### Key Financial Information

#### What Financial Information is included in this Prospectus?

Detailed financial information is set out in Section 7, including:

(a) summary audited statement of profit or loss and other comprehensive income for Piston Zhaoqing for the 12 months ended 31 December 2014 (FY2014), the 12 months ended 31 December 2015 (FY2015), and the 12 months ended 31 December 2016 (FY2016);

(b) unaudited historical and pro forma consolidated statement of financial position of Piston Machinery Ltd as at 31 December 2016; and

(c) summary audited historical audited statutory consolidated statement of cash flows for Piston Zhaoqing for FY2014, FY2015 and FY2016.
### Historical and Pro Forma consolidated balance sheet as at 31 December 2016 summary

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
<th>Unaudited</th>
<th>Minimum Pro Forma</th>
<th>Maximum Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>-</td>
<td>64,144</td>
<td>68,671</td>
<td></td>
</tr>
<tr>
<td>Total non current assets</td>
<td>-</td>
<td>26,828</td>
<td>26,805</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>-</td>
<td>90,972</td>
<td>95,476</td>
<td></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>-</td>
<td>39,862</td>
<td>39,862</td>
<td></td>
</tr>
<tr>
<td>Total non current liabilities</td>
<td>-</td>
<td>20,484</td>
<td>20,484</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>-</td>
<td>60,346</td>
<td>60,346</td>
<td></td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td>30,626</td>
<td>35,130</td>
<td></td>
</tr>
</tbody>
</table>

### Historical consolidated statement of profit and loss and other comprehensive income summary

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>45,033</td>
<td></td>
<td></td>
<td>53,386</td>
</tr>
<tr>
<td><strong>Gross margin</strong></td>
<td>9,774</td>
<td></td>
<td></td>
<td>12,565</td>
</tr>
<tr>
<td><strong>EBITDA (pre significant item)</strong></td>
<td>5,940</td>
<td>8,016</td>
<td>9,022</td>
<td></td>
</tr>
<tr>
<td><strong>IPO advisor fees (settled via shares)</strong></td>
<td>-</td>
<td>-</td>
<td>(431)</td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA (pre significant item)</strong></td>
<td>5,940</td>
<td>8,016</td>
<td>8,591</td>
<td></td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>4,856</td>
<td></td>
<td>6,238</td>
<td>6,870</td>
</tr>
<tr>
<td><strong>NPAT</strong></td>
<td>1,738</td>
<td></td>
<td>1,334</td>
<td>4,287</td>
</tr>
</tbody>
</table>

### Historical consolidated statement of cash flows summary

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net cash flow from operating activities</strong></td>
<td>3,657</td>
<td>4,238</td>
<td>6,489</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flow from investing activities</strong></td>
<td>(2,132)</td>
<td>(21,661)</td>
<td>20,168</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flow from financing activities</strong></td>
<td>(2,750)</td>
<td>31,946</td>
<td>(46,617)</td>
<td></td>
</tr>
<tr>
<td><strong>Net increase / (decrease) in cash held</strong></td>
<td>(1,225)</td>
<td>14,523</td>
<td>(19,960)</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the beginning of the financial year</strong></td>
<td>12,069</td>
<td>11,705</td>
<td>26,753</td>
<td></td>
</tr>
<tr>
<td><strong>Effects of exchange rates on translation from RMB to AUD</strong></td>
<td>861</td>
<td>525</td>
<td>(1,152)</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of</strong></td>
<td>11,705</td>
<td>26,753</td>
<td>5,641</td>
<td></td>
</tr>
</tbody>
</table>

### Key Operating Metrics

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume ('000) units</td>
<td>70,447</td>
<td>64,935</td>
<td>75,322</td>
</tr>
<tr>
<td>Average price per unit ($)</td>
<td>$0.64</td>
<td>$0.76</td>
<td>$0.71</td>
</tr>
<tr>
<td>Year on year revenue growth</td>
<td>n/a</td>
<td>9.6%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Gross margin %</td>
<td>21.7%</td>
<td>25.5%</td>
<td>24.8%</td>
</tr>
<tr>
<td>Average no of FTEs</td>
<td>520</td>
<td>522</td>
<td>501</td>
</tr>
<tr>
<td>Operating expenses as a % of revenue</td>
<td>8.5%</td>
<td>9.2%</td>
<td>7.7%</td>
</tr>
<tr>
<td>EBITDA margin % (pre significant item)</td>
<td>13.2%</td>
<td>16.2%</td>
<td>16.9%</td>
</tr>
<tr>
<td>EBITDA margin % (post significant item)</td>
<td>13.2%</td>
<td>16.2%</td>
<td>16.1%</td>
</tr>
<tr>
<td>EBIT margin %</td>
<td>10.3%</td>
<td>12.6%</td>
<td>12.9%</td>
</tr>
<tr>
<td>NPAT margin %</td>
<td>3.9%</td>
<td>2.7%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

The Groups debt asset ratio is 82.5% as at 31 December 2016 and the interest coverage ratio is 2.1 for FY2016.
Dividends

Will dividends be paid?

There can be no assurances regarding the payment of future dividends, as this will depend on, amongst other things, the general business environment, the Group's level of profitability, the Group's funding requirements and the Group's financial and taxation position at the time.

Use of Funds

What are the use of funds from the Offer?

The table below sets out the proposed use of funds from the Offer:

<table>
<thead>
<tr>
<th>Minimum Subscription</th>
<th>Maximum Subscription</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount $</td>
<td>%</td>
</tr>
<tr>
<td>Acquisition of new equipment</td>
<td>5,500,000</td>
</tr>
<tr>
<td>Establishment of new workshop facility</td>
<td>3,000,000</td>
</tr>
<tr>
<td>ERP Upgrade</td>
<td>1,500,000</td>
</tr>
<tr>
<td>R&amp;D investment</td>
<td>1,257,000</td>
</tr>
<tr>
<td>Offer costs remaining to be paid</td>
<td>2,243,000</td>
</tr>
<tr>
<td>Working Capital</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Total funds</td>
<td>15,000,000</td>
</tr>
</tbody>
</table>

Notes:
1. Total cash expenses of the Offer will be funded from the proceeds of the Offer. Those expenses amount to $2,661,000 on the Minimum Subscription and $3,135,000 on the Maximum Subscription and $1,500,000 of non-cash costs in either case. Refer to section 11.8.
2. Working capital expenditure in Australia is to be applied towards administration costs associated with the Company. These costs include wages and salaries, occupancy costs, professional consultants’ fees, compliance and reporting costs associated with running an ASX listed company, as well as other typical administration costs estimated for the 2 years following the IPO.
3. Administration expenses will be applied towards paying staff salaries, training, external technical consultants and other related expenses.

Key Offer Information

What is the Offer?

This Prospectus provides investors with the opportunity to participate in the initial public offering of Shares in the Company.

What are the key dates of the Offer?

The Offer closes on 10 November 2017.

The Offer Shares are expected to be allotted on 17 November 2017.

The Holding Statements are expected to be dispatched on 22 November 2017.

The Shares are expected to commence trading on ASX on 28 November 2017.

What is the Offer Price?

The Offer Price is $0.40 per Share.

What is the maximum subscription available under the Offer?

The Company is offering the public a Maximum Subscription of 50,000,000 Shares to raise $20,000,000, before costs of the Offer.
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>SUMMARY</th>
<th>FURTHER DETAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the minimum subscription available under the Offer?</td>
<td>The Minimum Subscription is 37,500,000 Shares to raise $15,000,000, before costs of the Offer. If the Minimum Subscription is not raised, the Company will not proceed with the Offer and will repay all Application Moneys received (without interest).</td>
<td>Section 6.1</td>
</tr>
<tr>
<td>What will the market capitalisation of the Company be upon Listing on ASX?</td>
<td>Based on the Offer Price of $0.40 per Share, the Company's market capitalisation is expected to be $60,000,000 if the Minimum Subscription of 37,500,000 Shares is reached and $65,000,000 if the Maximum Subscription of 50,000,000 Shares is reached.</td>
<td>Section 6.1</td>
</tr>
<tr>
<td>What is the minimum application amount?</td>
<td>You may apply for a minimum parcel of 5,000 Shares for a minimum subscription of $2,000 and thereafter in multiples of 1,000 Shares.</td>
<td>Section 6.1</td>
</tr>
<tr>
<td>How do I participate in the Offer?</td>
<td>The Offer is open to all investors who are resident in Australia. However, any person who has a registered address in any other country who receives this Prospectus may apply for Shares, but may only apply where that investor is able to reasonably demonstrate to the satisfaction of the Company that the investor may lawfully participate in the Offer. Applications for Shares by eligible Applicants must be made by applying online or using the Application Form attached to this Prospectus. To the maximum extent permitted by law, the Directors will have discretion over which Applications to accept. Applicants must follow the procedures advised to them by the Company for Applications under the Offer.</td>
<td>Sections 6.1(b), 6.2 and 6.11</td>
</tr>
<tr>
<td>What are the costs of the Offer paid by the Group</td>
<td>The Company’s costs of the Offer (cash and non-cash) are estimated to total approximately $2,661,000 based on the Minimum Subscription and $3,135,000 based on the Maximum Subscription. Note: The company has prepaid part of the cash offer costs before 31 December 2016 ($418,000).</td>
<td>Section 11.8</td>
</tr>
<tr>
<td>What securities will be listed?</td>
<td>The Company will apply to ASX within 7 days after the date of this Prospectus for quotation of the Shares offered by this Prospectus on ASX. If ASX does not grant permission for the quotation of those Shares within 3 months after the date of this Prospectus, or such longer period as modified by ASIC, none of the Shares offered by this Prospectus will be allotted or issued. In these circumstances, all Applications will be dealt with in accordance with the Corporations Act, including the return of all Application Moneys without interest. A decision by ASX to grant official quotation of the Shares is not to be taken in any way as an indication of ASX’s view as to the merits of the Company or of the Shares. Official Quotation, if granted, of the Shares offered under this Prospectus will commence as soon as practicable after statements of holdings of the Shares are dispatched.</td>
<td>Section 6.8</td>
</tr>
<tr>
<td>Will any Shares be subject to escrow?</td>
<td>Yes. Up to 112,500,000 Shares may be subject to compulsory ASX escrow for between 12 and 24 months from the date of Listing of the Company.</td>
<td>Section 11.19</td>
</tr>
<tr>
<td>What is the allocation policy under the Offer?</td>
<td>The Company will determine the basis for the allocation of Shares.</td>
<td>Section 6.3</td>
</tr>
</tbody>
</table>
What is the capital structure prior to completion of the Offer and after completion of the Offer?

The ownership structure of the Company, as at the date of this Prospectus and when the Offer has been completed, is summarised below:

<table>
<thead>
<tr>
<th>Shares on issue as at the date of this Prospectus</th>
<th>Minimum Subscription</th>
<th>Maximum Subscription</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of Offer Shares to be issued</td>
<td>37,500,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Total number of Shares on issue at Completion of the Offer</td>
<td>150,000,000</td>
<td>162,500,000</td>
</tr>
</tbody>
</table>

What is the percentage of Shares being offered based on the number of Shares currently on issue?

30.77% in the event the Maximum Subscription is raised and 25% in the event the Minimum Subscription is raised, are being offered under this Prospectus.

What is the proposed ticker code?

If the Company is successful in its application for admission to the Official List of the ASX, the Shares will trade on ASX under the ticker “PZM”.

Is any brokerage, commission or stamp duty payable by applicants?

No brokerage, commission or stamp duty is payable by applicants on acquisition of Shares under the Offer. Fees are payable, in relation to the Offer to AGC Capital Securities, the Lead Manager and Corporate Adviser to the Company. Details are set out in “Interests of Advisers” in Section 11.20. These fees will be paid out of the proceeds of the Offer.

What are the tax implications for acquiring Piston shares?

The Directors do not consider it appropriate to give Applicants advice regarding the taxation consequences of subscribing for Shares under this Prospectus.

The Company, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to Applicants. As a result, Applicants should consult their professional tax adviser in connection with subscribing for Shares under this Prospectus. A brief, illustrative summary of potential taxation consequences of investing under the Offer is set out in Section 11.4.

How do I apply for Shares?

You can apply for Shares by applying online or by submitting a valid Application Form accompanying this Prospectus (including the electronic version of the Prospectus) in accordance with the instructions contained therein.

CHESS

The Company will apply to participate in the Clearing House Electronic Subregister System (CHESS). CHESS is operated by ASX Settlement, a wholly owned subsidiary of ASX. Under CHESS, the Company will not issue certificates to investors. Instead, security holders will receive a Holding Statement of their holdings in the Company. If an investor is broker sponsored, ASX Settlement will send a CHESS statement.
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>SUMMARY</th>
<th>FURTHER DETAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>When will I receive confirmation that my Application has been successful?</td>
<td>Confirmation of successful Applications in the form of Holding Statements are expected to be despatched by post on or around 22 November 2017.</td>
<td></td>
</tr>
<tr>
<td>Residents outside Australia</td>
<td>This Prospectus and any accompanying Application Form do not and are not intended to constitute an offer of securities in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus or the Shares offered under this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.</td>
<td>Section 6.11</td>
</tr>
<tr>
<td>Enquiries</td>
<td>All enquiries about this Prospectus should be directed to 02 8098 1088.</td>
<td></td>
</tr>
</tbody>
</table>
03

INDUSTRY OVERVIEW
3.1 Reform of the Cast Iron Industry in the PRC

The PRC has a strong cast iron industry, with up to 17,000 registered manufacturing entities. By volume, the PRC's annual casting output has been the highest in the world for the past 10 years. In 2015, it produced 33.65 million tonnes of cast iron products, accounting for about 45% of total global cast iron production.

The Chinese domestic cast iron industry supplies to almost all manufacturing industries in the PRC, with the majority of product demand (52.4%) attributable to the motor vehicle and machinery manufacturing industries. Construction and rail transport vehicles are also sectors that drive demand for cast iron products.

In 2015, the PRC changed its development strategy in relation to the cast iron industry from driving production quantity towards a higher value added manufacturing model. This strategy has been implemented under the ‘cut the excessive industrial capacity initiative’ of the central government.

Still, a large number of cast iron foundries in the PRC are small, with high energy consumption and low efficiency. They typically produce lower value, low quality products. In an effort to improve the overall standard and quality of its manufacturing capability, the PRC’s central government has moved to shut down the smaller, less efficient foundries.

Due to its high energy intensity and pollution, the cast iron industry has been among the most affected by the central government initiative to increase manufacturing efficiency. As a result, the PRC’s cast iron sector has experienced consolidation.

In 2016, the combined targeted reduction of capacity in steel and iron manufacturing under the central government’s initiative, was 45 million tonnes. According to China’s 13th Five Year Plan - Casting Industry, the total number of iron casting companies are expected to reduce from 17,000 to 10,000 by 2020, falling further to 6,000 by 2025. At the same time, the average iron casting capacity is expected to increase from 3,500 tonne/per factory in 2020, to 6,000 tonne/per factory in 2025.

In this context, the Company has satisfied all the technological and manufacturing scale requirements imposed by the central government's rationalisation programme and is therefore well positioned for long term development. In addition, the price of cast iron products has experienced positive change due to the capacity restraint. More significant price change is expected to happen in later in 2018 with continuous capacity reduction nation wide. This should benefit companies that meet the national requirements, including the Company.

Leading Chinese casting firms have implemented new technologies and techniques to their production lines comparable with the advanced casting facilities of their global peers. It is anticipated that by 2025, total cast iron production output will reach 36 million tonnes per annum, but with a higher percentage of ductile cast iron products than at present and less low end, grey cast iron products.
The consolidation measures are an important barrier to entry facing new entrants to the cast iron industry. New entrants must also compete with large and efficient manufacturing facilities of established players with well established relationships with their downstream customers. Furthermore, increasingly stringent quality certification requirements apply, especially for suppliers of products to the compressor manufacturing and automotive manufacturing sectors.

In the next 5 years, the casting industry is expected to continue to grow, spurred by demand from industries such as motor vehicle manufacturing. However, due to the slowdown in the PRC’s economy and adverse conditions in its real estate sector, industry revenue growth is expected to be constrained to 4% per annum. By 2021, revenue is forecast to reach $136.2 billion. In this more difficult environment, enterprises are likely to invest in more advanced equipment and technology to increase efficiencies, add value to products and improve quality. In the cast iron industry in particular, this will focus on improving casting technology, developing new casting materials, developing higher strength and lower weight castings, improving quality controls, improving quality consistency and developing castings that meet environmental regulations.

### 3.2 Residential air conditioner market

The PRC accounts for 76.3% of global residential air conditioner sales and exports, which reached 94.3 million units in 2015. The industry declined at an annualised rate of 0.2% between 2011-2016, driven by slower growth of the PRC’s economy, the expiration of a series of stimulus policies for Chinese electrical appliances and adverse real estate market conditions. However, it is anticipated that industry revenue will nonetheless grow at 2.1% annually to 2021, increasing to 4% per annum by 2030. This growth is expected to be driven by the developing domestic economy, rising urban household income levels and the increasing number of high income households. To combat the decline in the sector between 2011 and 2016, industry participants have invested in developing technologies, launching new products with lower prices and more advanced specifications and by establishing new channels to promote sales. Consequently, revenue for the residential air conditioning market is expected to increase at a higher growth rate (2.9% to 2021) annually than the broader industry (2.1% to 2021). This, in turn, translates into growing demand for the cast iron components.

Factors driving global residential air conditioner sales include:

(a) **Overseas**

(i) **Displacement of foreign competitors.** Chinese manufactured rotary compressors have replaced competing products produced in developed countries.

(ii) **Global population growth.** Air conditioner sales in densely populated emerging countries such as Brazil, India and Indonesia are growing at a rate of 10~15% per year, resulting in an expected increase in the number of installed air conditioning units globally from 900 million today to roughly 1.6 billion by 2030. In this context, global sales of residential air conditioners are expected to experience strong growth in the medium to long term. This is expected, in turn, to promote growing demand of cast iron components.

(b) **The PRC**

(i) **Replacement demand in urban areas.** In 2012, the ownership rate of air conditioners in urban areas of the PRC was 126.8 units per 100 households. Urban dwellers are expected to replace or upgrade their existing air conditioners and therefore increase demand in the air conditioning market.

(ii) **Rural demand.** In rural areas of the PRC, the ownership rate of air conditioners is 48 units per 100 household dwellings in 2016. With improving income in rural areas, demand is expected to continue to grow. This is expected to support the demand for air conditioners in the long term. The market is also expected to grow in county-level cities and towns and villages.

(iii) **Increased housing sales.** The development of the building construction industry in the PRC is closely related to the air conditioner industry. Growing sales for residential houses is expected to drive rising demand for room air conditioners, while increased sales of flats, apartments, serviced flats and villas greater than 100 square meters is also expected to promote sales of residential central air conditioning systems.

(iv) **Rising standards of living.** As the Chinese domestic economy continues to develop, urban household income levels and the number of high income households is expected to rise. Therefore, demand for residential central air conditioning systems is expected to rise as a result of increased economic prosperity.
3.3 Chinese rotary air conditioner compressor market

(a) Types of compressors

The Company's target market is the rolling piston / blade type and rotary vane / vane type compressors, which may be described as follows:

(i) Rolling Piston / Blade Type: high efficiency, low noise, high reliability, light weight, small size. This type of compressor has been widely used for domestic air-conditioners and refrigeration units, as it requires less space and fewer components.

(ii) Rotary Vane / Vane Type: a positive displacement compressor that achieves a similar outcome to screw types, but with higher energy efficiency, operating at lower speeds inexpensively over its operating life and with greater longevity.

(iii) Scroll Type: small, quiet, clean and noise free compressor offering relatively low capacity at a relatively higher cost.

(iv) Screw Type: an inexpensive and popular positive displacement compressor that offers high reliability but at the expense of a bulky body size which is required for cooling and lubricating equipment.

Rotary compressors are generally considered to be the best available technology in residential air conditioning, owing to their relative cost, low maintenance and versatility in technological improvements. Known improvements being developed for rotary compressors include a growing adoption of variable frequency (from its current 60% market penetration in air conditioners), reductions in size and increasingly efficient current inverters. Nevertheless, these changes do not affect the fundamental structures of rotary compressors and are not expected to reduce demand for them.

The PRC is the world's largest manufacturer of rotary compressors for residential air conditioners, with an estimated 80% of global rotary compressor manufacturing capacity in the PRC. Between 2013 and 2016, rotary compressor production in the PRC grew at a CAGR of 3.9%. In 2016, rotary compressor production was estimated at 153 million units in the PRC.
Barriers to entry

Cast iron components such as pistons, cylinders, bearings, crankshafts and counterweights are indispensable elements of rotary compressors. The quality of these components is critical in determining compressor performance. Precision in sizing and finishing within very small tolerances is critical to achieving the balance required to avoid vibration when rotated at high speeds in a rotary compressor.

As a result, these components fall into the higher, value added segment of cast iron component production in the PRC that the initiatives of the central government are aimed at supporting and developing.

Rotary compressor component manufacturing, in the higher end of the cast iron manufacturing sector, is a mature industry, with high industry and market entry barriers that include:

(i) **High technical requirements.** Rotary compressor key components such as blades, counterweights and pistons must meet exacting downstream customers' demands for high precision and stable function. Manufacturers are required to offer wide product ranges and are subject to customer driven cost restraints. This requires suppliers to have well developed technical capabilities, modern equipment, high quality standards and skilled personnel. In addition, many suppliers have patented their products to secure competitive advantages. Customers value manufacturer intellectual property as an important selection leverage.

(ii) **High market entry barriers.** It is difficult and time consuming for new entrants to develop or acquire the technical and managerial expertise to compete with established manufacturers. Aspiring suppliers need to navigate rigorous screening processes to be listed as qualified suppliers with key industry customers. The screening process includes assessment of technical expertise, research and development capabilities, intellectual property, manufacturing expertise and product quality, logistics, historical performance and financial capability. The screening process is lengthy, taking one to two years and usually includes product development, sample testing, sample life expectancy testing, batch testing and other quality assurance testing. Once the supply relationship is established, customers typically show a high level of attachment and are reluctant to change suppliers.

(iii) **High capital requirement.** Compressor component manufacturing is capital intensive. As high precision manufacturing, significant investment in skills, technology and facilities is required, with high initial capital investment. It also requires significant working capital. For example, customers (generally, compressor assembly companies) typically adopt a 'zero warehouse' policy, transferring warehousing costs and risks to suppliers. Customers require manufacturers to hold minimum inventories, thereby reducing flow times within the production system as well as response times from suppliers to customers.

Key Industry Players

The majority of air conditioner manufacturers are vertically integrated, owning rotary compressor assembly plants. The top 5 air conditioner manufacturers in the PRC are:

(i) GMCC (joint venture of Midea and Toshiba);
(ii) Landa (owned by Gree Electrical);
(iii) Highly (associated with Shanghai Hitachi);
(iv) Panasonic; and
(v) Rechi Compressor.

As a result, component manufacturers have direct links to air conditioner manufacturers.

These top 5 rotary compressor manufacturers represented about 75% of the total air conditioner rotary compressor assembly capacity in the PRC in 2015. Other major manufacturers and assemblers include LG, Samsung, Huarun Sanyo, Xi'an Qing'an, Chunlan, Glanz, and Chigo.

Cast iron rotary compressor components

In the rotary compressor sector, cast iron components currently represent state of the art technology and comprise between 20% and 25% of a rotary compressor's value. The rotary compressor is expected to continue to be used in residential air conditioners for the foreseeable future.

Due to the cast iron product price increase due to overall capacity reduction, the increase in market sales revenue of cast iron components has outgrown unit sales from 2015 to 2016.
Rotary Compressor Manufacturing Capacity, by Manufacturer, China, 2015

GMCC 27%  
Landa 21%  
Rechi 7%  
Panasonic 7%  
Highly 12%  
Others 26%

3.4 Market for cast iron parts in motor vehicles

(a) The Chinese automotive industry

The PRC has a strong automotive industry, with production reaching 28.1 million units (all vehicle types inclusive) in 2016, an increase of 14.8% from 2015. The PRC is also one of the few countries in the world that encompasses the complete motor vehicle manufacturing value chain.

The Chinese motor vehicle industry is in a growth phase and in the 10 years to 2021, industry value added is expected to grow by 7.1% annually, higher than the PRC’s forecasted annual GDP growth. This growth will be supported by consumer demand for passenger motor vehicles in the PRC increasing as a result of favourable government subsidies and tax concessions, greater access to loans as the Chinese finance sector continues to develop and growing household income levels in line with increasing GDP.

In recent years, the Chinese government has provided strong support for new energy (electric) motor vehicle development and this industry is also expected to experience steady, substantial growth over the next 5 years.

(b) The Chinese motor vehicle component industry

The industry in the PRC grew at an annualised rate of 10.6% in the 5 years to 2016, totalling $584.7 billion in 2016. From 2017 to 2021, PRC industry revenue is forecast to increase at an average annualised rate of 6%, totalling $783.2 billion in 2021. Nevertheless, the PRC’s auto parts manufacturing value is still lower than its global peers. While technical innovation has increased in recent years, Chinese motor vehicle component manufacturers still typically invest only 1% to 1.5% of total revenue in R&D, compared to the 3% to 5% typically invested by overseas competitors. By 2013, very few Chinese companies reached the global top 100 motor vehicle parts manufacturers. Advanced automotive parts are therefore still primarily imported from developed countries.

A typical motor vehicle has about 30,000 parts, roughly categorised into power train system, body parts system, chassis system, electrical system and universal systems. About 15–20% of these components are made using various casting technologies (including iron cast, alloy cast and others).

There are currently six industry clusters for automotive component manufacturing in the PRC. They are located in Northeast, Southeast, North, Central, Yangtze Delta and Pearl River Delta. Most of these manufacturers are located near their markets, as the automotive manufacturing output in these six regions accounts for over 70% of total automotive production in the PRC. The cluster in the Pearl River Delta area, where Piston Zhaoqing and Piston Jingtong are located, is responsible for roughly 9% of the national motor vehicle component manufacturing output.

3.4 Market for cast iron parts in motor vehicles

(e) Growth drivers for compressors

Not only is there strong demand for rotary compressors in the domestic Chinese market, but the PRC is also the largest exporter in this industry. In 2015, 40% of global residential air conditioner sales came from exports out of the PRC.

![Market Sizes of Key Cast Iron components used in residential air conditioners compressors, China 2012-2022, CAGR (2011~2016) = 3.9%](chart.png)

![Rotary Compressor Manufacturing Capacity, by Manufacturer, China, 2015](pie_chart.png)
Automotive component market trends

Motor vehicle manufacturing is the largest downstream sector for cast iron products, consuming about 9.3 million tonnes of cast iron products in 2015.

A strong trend in automotive casting components is towards lighter weight materials with increased strength. This has driven cast iron manufacturers to develop new products to meet this demand. For example, a form of cast iron, austempered ductile iron (also known as ADI or ausferritic ductile iron), which is a specialty heat treated material with high strength, low cost and abrasion resistant applications, has replaced steel cast parts for upper level arms in front suspension systems. It achieves the same strength as traditional cast iron, but with 30~80% reduction in weight. Thin wall iron casting, which can lead to lighter weight vehicles with lower fuel consumption, has also been used to achieve lighter weight products, without compromising strength.

Demand in growth for cast iron components in automotive manufacturing is in line with the growth of automotive manufacturing and development of the aftermarket generally.

<table>
<thead>
<tr>
<th>Demand for Cast Iron Components Used in Automobile Manufacturing, Million Tonnes, China, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 2020, CAGR (2016 - 2020) = 4.9%</td>
</tr>
</tbody>
</table>

Mechanical parts and accessories make up the main product segment of the industry, contributing 48.5% of total industry revenue in 2016. The second largest industry segment is parts and accessories for electric motors, accounting for an estimated 26.5% of total industry revenue in 2016.

Growth drivers

The demand for cast iron automotive components is expected to experience robust growth. Factors driving automotive manufacturing in the PRC include:

(i) **Motor vehicle manufacturing growth:**

Automotive production in the PRC grew strongly at a CAGR of 33% between 2005 and 2015, reaching 24.5 million units in 2015. From 2010 to 2020, vehicle production in the PRC is forecast to increase from 18.3 million to 30.7 million units per annum, at a CAGR of 5.3% and is estimated to have contributed 28% to global vehicle manufacturing units. Current private motor vehicle ownership in the PRC reached 194 million units in 2016, equating to 130 automotive units per 1,000 capita. This is still considerably lower than the 500 automotive units per 1,000 capita in developed countries. This discrepancy potentially represents a basis for strong growth of automotive manufacturing in the PRC.
Steady downstream growth has driven a significant portion of revenue growth in the auto parts manufacturing industry in the 5 years to 2016. As motor vehicle ownership levels peak, motor vehicle production is now experiencing a slower growth rate compared to 10 years ago. However, it is still one of the strongest growing sectors in the PRC, with an anticipated production output annual growth rate of 4.3% by unit between 2015 and 2020. The sector is forecast to maintain high annualised growth levels of 8% to 10% over the next 14 years, leading the motor vehicle manufacturing industry in the PRC to grow a projected 1.5 times faster than the PRC's GDP over the period.

(ii) Positive government regulations

National and provincial regulations have encouraged the development of the motor vehicle industry. These regulations have focused on providing a better operating and market focused environment for the industry. Favourable government policies have also stimulated downstream demand, as new car costs have decreased, subsidies for car buyers in rural areas have become available and new cars are accounting for an increased proportion of the overall fleet.

(iii) Development of aftermarket

While the automotive market matures, development of the used vehicle market is also expected to stimulate component sales in the aftermarket. Used car sales are expected to reach 20 million units in 2020, with a CAGR of 26.9% since 2012.

(iv) Forecasted Export Growth

The PRC has become one of the largest manufacturers of motor vehicle parts and accessories in the world. Export growth has been significant in the past decade, driven by strong demand in the United States and Japan. Whilst export growth has fluctuated significantly over this period, as technology and the quality of Chinese products improves whilst pricing levels remain competitive, demand from foreign countries is expected to increase steadily. As a result, exports are projected to grow 2.9% per year to increase to $34.3 billion in 2021.

(e) Barriers to entry

As a part of the PRC's automotive component manufacturing sector, cast iron motor vehicle component manufacturing is in the growth stage of its life cycle. To enter the industry, entrants face barriers to entry:

(i) High technical requirements

Due to safety requirements, original equipment manufacturers (OEM) impose high standards on motor vehicle component suppliers. New suppliers must pass a series of rigorous assessment programs on quality control systems and be certified with relevant quality management systems. For example, ISO/TS 16949 is compulsory for suppliers in the automotive supply chain. In addition, OEM companies also require second tier suppliers to be certified with those safety standards. As a result, the new customer acquisition process can take between 2 and 5 years, before the first order is received. As a result, motor vehicle manufacturers are reluctant to change suppliers.

(ii) Capital requirements

When choosing suppliers, motor vehicle manufacturers require component suppliers to have significant manufacturing scale, to ensure that the supplier is able to meet large order volumes, on time.

Motor vehicle component manufacturers need to have large scale manufacturing capacity to meet large order volumes and just in time delivery systems. As a result, component manufacturers require significant fixed asset investment in plant, construction and equipment that need constant investment to keep pace with process and product development. In addition, the motor vehicle makers implement a 'zero warehousing' policy which requires suppliers to lease third party warehouses near to customers to hold stock. This demands high working capital of suppliers.

(iii) Strong research and development capability

The motor vehicle manufacturing industry demands constant technological innovation in all respects. While cast parts in motor vehicles are considered indispensable, they must be continually improved, particularly in respect of improving manufacturing efficiency and weight reduction (achieved through material composition and structural improvement) without compromising strength and durability. Improved products not only open new market opportunities, but also ensure profitability. Consequently, firms unable to meet these rigorous research and development requirements are unlikely to succeed.
04

GROUP OVERVIEW
4.1 Introduction

The Group is a manufacturing concern producing cast iron (and related alloys) components.

In the main, the Group manufactures components for use in rotary compressors for residential air conditioners. These include pistons, cylinders, bearings, crankshafts and counterweights, being key components for compressors in residential air conditioners.

The Group also has a recently developed business unit manufacturing decelerator shells used in motor vehicle manufacturing, which received its first orders in 2016.

The Group’s principal production facility is located in the high technology development zone of Zhaoqing City, Da Wang District, Guangdong Province, PRC. The manufacturing premises is equipped with DISA iron casting production lines, an automated finishing line and testing facilities.

4.2 History

The table below summaries key events in the history of the Group:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 February 2007</td>
<td>Piston Jingtong is incorporated in Zhaoqing city, Guangdong province.</td>
</tr>
<tr>
<td>12 April 2007</td>
<td>Piston Zhaoqing is incorporated in Zhaoqing city, Guangdong province.</td>
</tr>
<tr>
<td>January 2008</td>
<td>Construction of Piston Zhaoqing’s two casting workshops is completed.</td>
</tr>
<tr>
<td>November 2009</td>
<td>Construction of Piston Zhaoqing’s plant and complex use building is completed.</td>
</tr>
<tr>
<td>17 May 2011</td>
<td>Piston Anhui is incorporated in Wuhu city, Anhui province with a two story factory was leased in Anhui to provide key customer Anhui GMCC with semi-completed pistons.</td>
</tr>
<tr>
<td>December 2011</td>
<td>Construction of Piston Jingtong’s R&amp;D facility and three workshops is completed.</td>
</tr>
<tr>
<td>9 January 2015</td>
<td>Piston Zhaoqing and its subsidiaries became the first of only 23 companies to meet Guangdong provincial government cast iron regulations.</td>
</tr>
<tr>
<td>July 2016</td>
<td>First order for motor vehicle parts is received.</td>
</tr>
<tr>
<td>22 May 2017</td>
<td>Piston Holding Limited was incorporated.</td>
</tr>
<tr>
<td>6 June 2017</td>
<td>Piston Holding Limited acquired the shares in Piston Zhaoqing.</td>
</tr>
<tr>
<td>26 June 2017</td>
<td>Transfer of shares from Piston Zhaoqing’s shareholders to Piston Holding Limited is approved by the Zhaoqing Administration of Industry and Commerce.</td>
</tr>
</tbody>
</table>

4.3 Corporate Structure of the Group

The following diagram depicts the structure of the Group:

![Diagram of corporate structure]
4.4 Employees

Piston Zhaoqing is headquartered in Zhaoqing city in the Pearl River Delta region. Piston Zhaoqing and its 206 employees specialise in the manufacture of air conditioning compressor components and counterweights.

Piston Jingtong employs 281 people in the production of air conditioner compressor parts and air cylinders, main bearings, supplementary bearings and crankshafts. The Jingtong production premises also includes a centre especially dedicated to research and development.

Piston Anhui employs 18 people in the production of high precision cast iron metal fittings in air conditioner compressors. Piston Anhui was established to meet the supply requirements of the Group’s key customer, Anhui GMCC, which this subsidiary primarily services.

4.5 The Group’s Business Model

(a) Background

The Group generates revenue by manufacturing and selling cast iron components to its current customer base of air conditioner compressor assemblers and more recently (as a new business division with first orders in 2016), motor vehicle part users.

The Group’s business model is a vertically integrated model. An illustrative diagram is set out below:

(b) Key Strategies Summary:

The Company’s strategic direction is to increase output and efficiency in its air conditioner rotary compressors business and to expand its range and output of cast motor vehicle components. The Company plans to:

- increase the volume and capacity of air conditioner components production by investing in a new manufacturing plant and equipment in the PRC;
- expand its new product offerings in the commercial vehicle sector to increase its customer portfolio;
- continue following the path articulated by Chinese central government initiatives to increase manufacturing efficiency (see section 3.1), particularly by increasing automation of its production processes;
- gain control of more of the value chain by further investing in its capacity to provide automated processing of its cast iron products;
- align its corporate model and manufacturing operations to maximise use of its existing production capacity;
- capitalise on growth opportunities in its core air conditioner compressor and motor vehicle parts markets;
- invest in research and development to drive increased efficiency and expand its product range;
- inject capital investment into additional productive capacity to support its growth objectives; and
- capitalise on the trend towards consolidation in the steel manufacturing sector in the PRC, by making selective, accretive acquisitions.

The Company believes that its strategy of boosting its volume of air conditioner compressor component manufacturing and investing in increased efficiency, while also expanding into the motor vehicle sector, will generate bigger markets for it and increase Group profitability.
4.6 Growth Strategy

While the Company intends to continue seeking improvement in its air conditioner compressor components business, it also intends to develop its capacity to supply into the motor vehicle components market in the PRC. In particular, it intends to expand its current position in the supply of motor vehicle (commercial vehicle) brakes, callipers, supports, supporting seats and other related products, to increase volume and include components for passenger vehicles. In this way, the Company aims not only to increase profitability, but also to reduce its reliance on the air conditioner compressor sector (but without sacrificing planned growth in that sector).

A key objective of the Company’s business model is to focus on adding value through integrating manufacturing and processing of high quality, higher margin products in its key markets. For example, by keeping in-house and automating smoothing and related finishing processes to cast products, the Group can increase the quality of and margin on, its completed products.

(a) Air conditioner market

In its core air conditioner compressor market, the Company believes that the Group is well placed to increase market share by increasing efficiency and production capacity, while the air conditioner market also benefits from growth on the back of ongoing urbanisation and rising living standards in the PRC and elsewhere. In the PRC, 69.7% of air conditioner industry revenue is spent on the purchase of raw material and key components, such as compressors, the parts of which are manufactured by the Group.

(b) Motor vehicle market

The Company wishes to capitalise on the growth of motor vehicle manufacturing in the PRC, where major global players have established manufacturing facilities and where domestic Chinese motor vehicle manufacturers are also expanding. To this end, the Company's medium term vision is to increase the Group's output of motor vehicle components by approximately 80%. To do so, the Company intends to invest in additional plant and equipment and to upgrade existing plant and equipment.

The Group has recently entered the motor vehicle manufacturing value chain and in 2016, received its first orders in this sector.

The Company has a strong reputation in cast iron and steel manufacturing in the PRC. It is leveraging this reputation, its high quality management processes and the Group's manufacturing base, for its automotive expansion plans. The Group has existing manufacturing capability to produce core materials required for motor vehicle component manufacturing, including graphite cast iron, high manganese alloys, stainless steel and high nickel alloys.

The Group's diversification into this sector aims to produce:

- braking systems components, including brake discs, brake callipers and brackets;
- components of power systems, including intermediate bridge reducer shells, rear bridge reducer shells, differential shells and rear axle housings;
- transmission systems;
- wheel hubs;
- steering knuckles; and
- exhaust systems,

both for commercial and passenger vehicles. The Group also hopes to expand to supply components such as metal shells and other critical frames for electric vehicles to meet an anticipated demand for environmentally friendly transportation methods being driven by Chinese government electric vehicle targets.

The Company expects near term growth opportunities to be in expanding supply of turbo shell components, as the trend towards smaller turbo charged engines is opening up niche market segments.

The Group's growth strategy aims to increase revenue from motor vehicle components over the next 3 to 5 years.

(c) Recent capital investment to drive growth

In order to meet the changing needs of the Group's customers, the Group's manufacturing facilities are continually maintained and upgraded. During the past 3 years, the Group invested in the automation of several of its production processes, such investments amounting to $3.4 million in FY2014, $2.2 million in FY2015 and $1 million in FY2016.
(d) **Future capital investment to drive growth strategy**

(i) **Acquisition of shell type production line**

During 2017, the Company plans to invest $4 million into a new, shell-mould casting production line, suitable for manufacturing heavy vehicle axles and differentials and higher value turbocharger scrolls and middleware products. As compared to sand casting, the shell type production line uses resin coated sand, yielding better dimensional accuracy, a higher productivity rate and lower labour requirements. It is generally used for small to medium parts that require high precision.

The new production line is expected to increase annual output of higher margin components from 1,000 tonnes to 8,000 tonnes or 51,000 units.

(ii) **Acquisition of Sinto automatic production line**

During 2018, the Company intends to invest a further $5.5 million to acquire and commission a Japanese Sinto automatic production line that will handle both casting and processing, to further expand the Company’s production capacity in motor vehicle parts and vertical integration of more of the value chain.

These parts are currently manufactured using the Company’s DISA production lines. The shift to the Sinto production process and synchronised modification of related plant and equipment will improve the Group’s moulding technology to offer:

(A) larger scale and hence increased output capability and efficiency;
(B) increased recycling of raw materials (95% of the sand can be recycled);
(C) reduction of labour costs (sand recycling typically reduces 35% of labour costs);
(D) extended moulding life, reducing costs;
(E) high liquidity in moulding, enabling manufacture of smaller, more precise products (for example, production of 3mm parts);
(F) increased diversity of products; and
(G) environmental benefits, as it does not need to use glue for dry sand.

The Company expects that the commissioning of this line will enable an increase in its annual output of cast motor vehicle products by 25,000 tonnes (150,000 units) and will generate an additional $30 million in revenue.

(iii) **Allocation of funds under investment plan**

Investment by the Company in its proposed shell-mould casting and Sinto production lines is forecast to cost $9.5 million during 2017 and 2018, namely:

(A) acquisition and commissioning of the new production lines - $5.5 - $7.3 million;
(B) acquisition and commissioning of the machining equipment - $3 - $4 million;
(C) additional working capital - $1.5 - $1.6 million;
(D) associated R&D costs - $1.3 - $2.4 million;
(E) associated ERP system update - $1.5 - $2.0 million; and
(F) offer costs outstanding - $2.2 - $2.7 million.

In this regard, the table below summarises the Company’s proposed allocation of funds raised under the Offer, which is integral to the Group’s growth strategy:

<table>
<thead>
<tr>
<th>Item</th>
<th>Minimum Subscription Amount $</th>
<th>%</th>
<th>Maximum Subscription Amount $</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of new equipment</td>
<td>5,500,000</td>
<td>36.67%</td>
<td>7,333,333</td>
<td>36.67%</td>
</tr>
<tr>
<td>Establishment of new workshop facility</td>
<td>3,000,000</td>
<td>20.00%</td>
<td>4,000,000</td>
<td>20.00%</td>
</tr>
<tr>
<td>ERP Upgrade</td>
<td>1,500,000</td>
<td>10.00%</td>
<td>2,000,000</td>
<td>10.00%</td>
</tr>
<tr>
<td>R&amp;D investment</td>
<td>1,257,000</td>
<td>8.38%</td>
<td>2,400,000</td>
<td>12.00%</td>
</tr>
<tr>
<td>Offer cost remaining to be paid</td>
<td>2,243,000</td>
<td>14.95%</td>
<td>2,716,000</td>
<td>13.58%</td>
</tr>
<tr>
<td>Working Capital</td>
<td>1,500,000</td>
<td>10.00%</td>
<td>1,550,667</td>
<td>7.75%</td>
</tr>
<tr>
<td><strong>Total funds</strong></td>
<td><strong>15,000,000</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>20,000,000</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

Notes:
1. Total cash expenses of the Offer (see Section 11.8) will be funded from the proceeds of the Offer.
2. Working capital expenditure in Australia is to be applied towards administration costs associated with the Company. These costs include wages and salaries, occupancy costs, professional consultants’ fees, compliance and reporting costs associated with running an ASX listed company, as well as other typical administration costs as estimated for the 2 years following the IPO.
3. Administration expenses will be applied towards staff salaries, training, external technical consultants and other related expenses.

The proposed use of proceeds described above represents the Company’s current intentions based upon present plans and business conditions. The amounts and timing of actual expenditures may vary significantly and will depend upon numerous factors, including the timing and success of the Company’s development efforts.
(e) **R&D Investment**

R&D is critical to the sustainable growth of the Group’s business. As a result, it has established long term cooperation partnerships with scientific research colleges and universities, such as Tianjin Polytechnic University and Changzhou Vocational Institute of Light Industry. On average, the Group invests in excess of 4 times the PRC average (considered in relation to the motor vehicle components and air conditioner industry averages) into R&D, a key component of the Group’s growth strategy and a key differentiator of the Group from its Chinese peers. For example, the Group currently has research projects relating to precision manufacturing and powder metallurgy.

The Company has recently signed a Memorandum of Understanding with the University of New South Wales to carry out R&D projects in the area of precision manufacturing. It is anticipated that the project, if it proceeds to a binding agreement, will have two phases:

(i) the first phase will focus on commercialising current research achievements in precision manufacturing made by the University, within the Group’s business; and

(ii) the second phase will progress research and development activities in relation to outcomes from phase 1 of the project.

(f) **Cost Reduction and Capital Management**

The Company’s strategy includes a commitment to improve efficiencies and reduce costs. To this end, the Company has initiated a cost reduction programme that is being actively managed and driven. Efforts have been focused on automation, resulting in commissioning of the DISA production lines (see Section 4.8(a)). The cost reduction programs also aim, in part, to improve capital management by reducing existing inefficiencies, so that funds available for working capital can be optimised. Funds raised under the Offer will be applied, in part, to increasing the Group’s working capital, which will enable full utilisation of the Group’s manufacturing capacity.

### 4.7 Manufacturing Facilities

(a) **Location of Facilities**

The Company and its subsidiaries manufacture products at its facilities in the southern Chinese city of Zhaoqing, a part of the Pearl River Delta region, in which many of its customers are located. Piston Anhui’s factory is located in the eastern Chinese province of Anhui, close to its key customer, Anhui GMCC.

(b) **Size and Capacity of Facilities**

Manufacturing is an integral competency within the Group. While the Group’s business is principally driven by its markets, manufacturing remains a critical element in the continuing success of the business.

The Group operates three foundries and 11 engineering facilities, with extensive machining capabilities.

Piston Zhaoqing and Piston Jingtong have constructed and own each of their respective facilities, which are located on properties for which they have been granted Land Use Rights (see Section 11.2(a)(i)) by the Guangdong provincial government. Piston Anhui has entered into an annual lease for its factory, which has been renewed each year since Anhui’s establishment in 2011.

The table below provides a summary description of the Group’s manufacturing facilities:

<table>
<thead>
<tr>
<th>Group Company</th>
<th>Description</th>
<th>Building Area</th>
<th>Annual Production Capacity/Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piston Zhaoqing</td>
<td>Machining Plant</td>
<td>4776 square metres</td>
<td>5.5 million air conditioner compressor pistons - loop (ring) line machining with 120 machining units</td>
</tr>
<tr>
<td></td>
<td>Casting workshop I</td>
<td>2394 square metres</td>
<td>12 million counterweights - precision (was) casting</td>
</tr>
<tr>
<td></td>
<td>Casting workshop II</td>
<td>2141 square metres</td>
<td></td>
</tr>
<tr>
<td>Piston Jingtong</td>
<td>R&amp;D Building</td>
<td>7791 square metres</td>
<td>DISA 1 and DISA 2 production lines produce 39,600 tonnes of air conditioner compressor casting components per year</td>
</tr>
<tr>
<td></td>
<td>Machining Workshop I</td>
<td>5184 square metres</td>
<td>4 bearing machining lines - annually produce 4.5 million main bearings, 4.5 million supplementary bearings</td>
</tr>
<tr>
<td></td>
<td>Machining Workshop II</td>
<td>7128 square metres</td>
<td>3 cylinder lines - 6.5 million air cylinders for air conditioner compressors</td>
</tr>
<tr>
<td></td>
<td>Machining Workshop III</td>
<td>1880 square metres</td>
<td>4 crankshaft lines - producing 9 million crankshafts</td>
</tr>
<tr>
<td>Piston Anhui</td>
<td>Factory (housing 30 items of machining equipment)</td>
<td>2129 square metres</td>
<td>Annually produces 10,000,000 high end, high-precision fittings of air conditioner compressors</td>
</tr>
</tbody>
</table>
4.8 High level production process overview

The Group adopts a production process model summarised as follows:

This process is subject to continuous review and monitoring by the management team in consultation with engineers and other technical experts to ensure that end-products are of the highest quality and meet customer needs.

(a) **DISA Division**

The Group's DISA division is currently the Group's most advanced casting and moulding production line. It includes an automated finishing line and complete test facilities and employs efficient boxless injection moulding. The line produces high dimensional accuracy and consistent surface finish, with high product quality consistency. It can produce 35,000 tonnes of wear resistant, thin walled, high strength qualified castings per year (excluding pistons), generating $45,911,900 (239 million RMB) in revenue per annum. It produces products with high precision and uniformity.

(b) **Component division**

This division produces crankshafts, cylinders and bearings for the motor vehicle sector and represents a key part of the Company's higher end manufacturing processes for automotive parts. A key advantage of this line is that it permits quick changes of tooling for multiple product specifications, enabling efficient product diversification.

The division can produce 18 million pieces per annum, generating revenue of $11,410,740 (59.4 million RMB).

(c) **Piston Division**

This line encompasses piston processing lines, grinding production lines and heat treatment production lines. It is used for manufacturing rotary air conditioner compressor pistons. Key advantages of the line are that it offers flatness and cylindrical control within a continuous production line and integrated sorting equipment that can operate to set tolerances. This production line is highly efficient, producing products with a high degree of consistency and longevity.

The division currently produces 42 million pieces of highly wear resistant products per annum, meeting exacting customer specifications and generating revenue of $22,590,960 (117.6 million RMB) per annum.

(d) **The Precision Casting Division**

This division has a smelting and wax equipment production line. A key advantage of the line is that it is capable of smelting and refining high manganese steel and stainless steel, a critical requirement for motor vehicle components.

The division's current capacity is 24 million pieces per annum, generating revenue of $7,837,680 (40.8 million RMB) per annum.

4.9 Product range

Piston possesses strong development capabilities and industry experience in manufacturing components in ductile cast iron, grey cast iron, high manganese steel, stainless steel, high nickel alloy and abrasion resistant alloy.
The table below summarises the key component products manufactured by the Group:

<table>
<thead>
<tr>
<th>Product</th>
<th>2014</th>
<th>GM%</th>
<th>2015</th>
<th>GM%</th>
<th>2016</th>
<th>GM%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pistons</td>
<td>21,126</td>
<td>25.9%</td>
<td>22,140</td>
<td>25.6%</td>
<td>19,388</td>
<td>19.6%</td>
</tr>
<tr>
<td>Casting</td>
<td>10,357</td>
<td>23.7%</td>
<td>10,235</td>
<td>34.3%</td>
<td>15,858</td>
<td>34.7%</td>
</tr>
<tr>
<td>Processing</td>
<td>7,279</td>
<td>20.9%</td>
<td>10,922</td>
<td>28.8%</td>
<td>12,798</td>
<td>27.2%</td>
</tr>
<tr>
<td>Countereights</td>
<td>6,212</td>
<td>6.6%</td>
<td>6,057</td>
<td>6.9%</td>
<td>5,225</td>
<td>16.6%</td>
</tr>
<tr>
<td>SUB TOTAL</td>
<td>44,973</td>
<td>21.9%</td>
<td>49,354</td>
<td>25.8%</td>
<td>53,269</td>
<td>25.6%</td>
</tr>
</tbody>
</table>

The Group received its first order for motor vehicle components in 2016, after two years of development. During 2016, 1,978 units were sold comprising rear decelerator shells, middle decelerator shells (type H8A and H8B) and bearing caps, generating $514,858 (2.45 million RMB) in revenue for the Group. As to proposed expansion of the Group's product offering in the motor vehicle sector, see Section 4.6(b).

4.10 Product Development

Product development is driven by:

(a) the requirements of customers in the Group's chosen markets, because the Group's products are made for incorporation into aggregated systems in air conditioners and motor vehicles, in accordance with exacting customer requirements; and

(b) the Group's anticipation of customers' future needs and goals, based on Group expertise, know-how and market trends, leveraging off investment in research and development to create and present new products to its customers.

The extent to which the Group can meet new product requirements of its customers depends on the Group's ability to manufacture products to the timing, volume and quality specifications of its customers. This depends, in turn, on the ability of the Group to continue driving efficiency and continuous improvement, which are integral to the Group's strategy for growth.

4.11 Maintenance Costs

The Directors estimate that for the next 3 to 4 years, the level of maintenance capital expenditure required by the Group is likely to be around $192,100 (1 million RMB) per annum for occupational health and safety, environmental improvements, moulding box and pattern replacements and general maintenance of facilities of a capital nature. Capital expenditure in excess of this level is largely associated with business improvement initiatives. In this regard, see Section 4.6(d).

4.12 Key Customers

(a) Air conditioner compressor components

(i) Customers

- Panasonic, a multinational electronic corporation;
- Mitsubishi Electric, creator of the Mitsubishi Electric split system air conditioner;
- Hitachi, a multinational conglomerate with operations in the consumer electronics industry;
- Midea Group, a Fortune 500 electrical appliance manufacturer;
- Gree Electric, the world's largest residential air conditioning manufacturer;
- Zhuhai Landa Compressor Co, a subsidiary of Gree Electric and manufacturer of air conditioner compressors;
- Lingda Group;
- TCL Corporation, an electronics manufacturer headquartered in Guandong Province;
- Siam Compressor Industry Pty, Thailand's leading manufacturer of air conditioning rotary compressors, a wholly owned subsidiary of Mitsubishi Electric Corp. (MELCO group);
- Chigo Group, a Hong Kong based producer of consumer air conditioning systems;
- Shanghai Highly Co, a Shanghai Stock Exchange listed producer of air conditioning compressors and refrigeration products based in India;
- GMCC (comprising Guangdong Meizhi Refrigeration and Equipment Co Ltd, Guangdong Meizhi Precision Manufacturing Co Ltd and Anhui Meizhi Precision Manufacturing Co Ltd), a producer of components for air conditioners, refrigerators, heater and water pumps and dehumidifiers; and
- Rechi Precision, a Taiwanese Stock Exchange listed maker of compressors and energy conservation products;

The total market share in the PRC of the Group’s key customers, is 85.7% of air conditioner compressor units and the Group’s components comprise 25% in value of those compressor units.

The table below summarises the Company’s aggregate sales to the largest five customers of the Company in this sector, namely Guangdong Meizhi (GMCC) Refrigeration and Equipment Co Ltd, Zhuhai Landa Compressor Co Limited, Guangdong Meizhi (GMCC) Precision Manufacturing Co Ltd, Anhui Meizhi (GMCC) Precision Manufacturing Co Limited and Panasonic Wanbao Appliances Compressor (Guangzhou) Co Limited, for calendar years 2014, 2015 and 2016:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (AUD)</td>
<td>40,101,353</td>
<td>36,832,699</td>
<td>38,909,279</td>
<td>115,843,331</td>
</tr>
<tr>
<td>Revenue (RMB)</td>
<td>208,752,487</td>
<td>191,737,111</td>
<td>202,547,000</td>
<td>603,036,599</td>
</tr>
</tbody>
</table>

(ii) Contractual arrangements

The Group’s contracts with its key customers are generally for a term of one year. Most of the Group’s material customers have renewed these annual contracts over several years. Given the extensive quality assurance due diligence required before customers on-board new suppliers, customers have shown preference to continuing and renewing contracts with the Group. The Group also provides attractive payment term incentives to its existing customers.

These contracts, at the time of renewal, typically include a forward forecast of the customer’s supply requirements for the next contract term, permitting the Group to forward plan to a significant extent.

Further, such contracts typically contain key performance indicators that, if met, give the Group preference over newcomers for annual renewals. The Group has consistently achieved key performance indicators set by its customers.

(b) Automotive components

The Group is developing new customer relationships in the commercial vehicle motor vehicle market, having sold its products to clients such as:
- SAIC Iveco Hongyan, a Chinese heavy duty truck manufacturer, producing tractors and trucks including for use on construction and engineering sites; and
- Dongfeng Liuzhou Motor Co., Ltd, a subsidiary of Hong Kong Stock Exchange listed Dongfeng Motor Group, producing trucks and passenger vehicles.

4.13 Use of funds and future funding of the Group

The Company intends to fund the Group through a mixture of debt and equity. In relation to the Offer, the Directors propose to apply the funds as set out in Section 4.6(d).

The Company has debt facilities in place that it understands are likely to be renewed after the facilities’ maturity dates. In this regard, refer to Section 10.1. These facilities, as with PRC bank debt facilities generally, must be repaid by their maturity date, before renewal and re-draw. The Company intends to use bridging finance to facilitate the renewals. In this regard, see Section 7.6(f).

4.14 Key strengths and competitive advantages

This section sets out the key strengths and advantages of the Company. The Company believes that these significant competitive advantages enable it to compete effectively with its key competitors.
(a) **Manufacturing Strengths**

(i) **Product scope**

The Group has developed a series of 147 cast iron components that cover a comprehensive range of rotary compressors. The Company believes that the Group is one of the few manufacturers to supply all cast components of air conditioner compressors in the PRC, making it a one-stop shop for its clients. This is a considerable relative advantage.

(ii) **Consistent high quality and continuous improvement**

The Group's manufacturing personnel have extensive technical experience. Through close cooperation and regular interactions between its product development, manufacturing, sales and service functions, the Group achieves consistently high-quality castings and finished products.

The Group continually strives for improved process performance by utilising its R&D outcomes, close association with industry specialists and research institutions to develop new processes and refine existing processes, to ensure that it maintains a leading industry position in foundry technologies.

(iii) **Fixed vs. variable costs**

The chart below shows a split of the Group cash operating costs for the years ended 31 December 2014, 2015 and 2016:

The table below sets out the cash amounts reflected in the pie chart above:

<table>
<thead>
<tr>
<th>Item</th>
<th>2014 ($)</th>
<th>2015 ($)</th>
<th>2016 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R &amp; D</td>
<td>1,593,000</td>
<td>1,538,000</td>
<td>1,936,000</td>
</tr>
<tr>
<td>Labor</td>
<td>933,000</td>
<td>1,356,000</td>
<td>1,265,000</td>
</tr>
<tr>
<td>Employee Benefit</td>
<td>476,000</td>
<td>422,000</td>
<td>296,000</td>
</tr>
<tr>
<td>Vehicle</td>
<td>250,000</td>
<td>319,000</td>
<td>191,000</td>
</tr>
<tr>
<td>Other Tax</td>
<td>181,000</td>
<td>231,000</td>
<td>144,000</td>
</tr>
<tr>
<td>Other Expense</td>
<td>401,000</td>
<td>682,000</td>
<td>281,000</td>
</tr>
<tr>
<td>TOTAL EXPENSE</td>
<td>3,834,000</td>
<td>4,548,000</td>
<td>4,113,000</td>
</tr>
</tbody>
</table>

The above charts and table illustrates that the Group’s operations are not materially exposed to any single fixed expense item, except labour and employee entitlements. They also demonstrate the Group’s sustained investment in research and development, its greatest input in 2014 - 2016. See also Section 7.5(d).
(b) **High barriers to entry by competitors**

New entrants face high barriers to entry:

- **High start-up costs** – Due to the complexity of production process, the upfront costs to obtain the technology, equipment and facilities required to produce the Company’s products, are high. Therefore, it is difficult for smaller businesses to enter into the market and represent any significant competition to the Group, particularly in light of the current production scale of the Group, its market position and the investment that has already made in the Group;

- **Long on-boarding processes** - the Group’s customers impose stringent due diligence on new suppliers that typically takes several years to complete; during this long period, no revenue is likely to be earned by a new entrant, despite substantial capital costs needed to meet approval requirements of the Group’s customers; and

- **Industry position** – The Group has good relationships with all of its customers. Its brand is well established in its key markets and its products are trusted by key customers such as Panasonic, Mitsubishi Electric, Hitachi and others.

(c) **Strong market position**

The Group is ranked among the top three suppliers in the Chinese rotary compressor components market, with a 15% market share. For example, during 2016, Piston supplied cast iron components procured by GMCC and about 25% of the total cast iron components procured by Zhuhai Landa Compressor, both market leaders in their sector in the PRC.

This strong market position is a platform for the Group to project itself into new target markets, such as motor vehicle components.

(d) **Attractive growth opportunities**

Attractive organic growth opportunities exist for the Group as a result of growth in demand for residential air conditioners and motor vehicles in the PRC and the potential to develop new products that can be leveraged from the Group’s versatile manufacturing base.

The Company is focussed on expanding from the commercial vehicle sector into passenger vehicle manufacturing. It is well placed to capitalise on the strong growth of motor vehicle industry in the PRC.

The Company is embedded in the air conditioner rotary compressor sector, occupying a strong market position. This market is growing on the basis of increasing middle class demographics in various parts of the world, combined with an apparent absence of any disruptive technology.

(e) **High technical standards**

The Group meets or exceeds the technical and industrial standards and accreditations set by Chinese government policy for its industry, while less efficient operations have been shut down under the government’s industrial rationalisation programme. To this end, the Company has ISO9001 Quality Management System, ISO14001 Environmental Management System and TS16949 Quality Management System, accreditations. Further, Piston Zhaoqing and Piston Jingtong were among the first to meet the Casting Industry Access Requirements set by Guangdong Province and were among the first batch of power reform pilot enterprises of Guangdong Province, in 2014.

The Group has experience in the production and R&D of ductile cast iron, grey cast iron, high manganese steel, stainless steel, high nickel alloy and wear resistant alloy through ceramic coating, in high demand in its industry.

(f) **Research and Development focus**

The Group invests approximately 4.8% of its revenue annually in R&D, which is well above the average in the PRC of 1%-1.5% for manufacturers. The low average R&D spend in the PRC has slowed entry by Chinese companies into the motor vehicle sector, where higher R&D expenditure is required to keep abreast of ongoing technological developments. On average, in developed countries, the average R&D spend of motor vehicle manufacturers is 3%-5% of revenue.

The Group’s strong R&D focus and higher investment differentiates its value proposition to automotive and air conditioner component manufacturers in the PRC.

(g) **Geographical location**

The Group’s principal production facilities are located in the high technology development zone of Zhaoqing (Da Wang district), Guangdong Province, PRC. Guangdong is the manufacturing centre of the PRC and households in
this region have relatively high disposable income levels. Companies located in this area benefit from preferential
government policies in taxation, financing and attaining project approvals. Approximately 5.5% of motor vehicle
component manufacturers are located in the province, owing to large market potential and revenue generated in this
province accounts for approximately 8.4% of the industry's total revenue.

Piston Zhaoqing and Piston Jingtong's production facility is located in the Pearl River Delta area, which hosts over
50% of rotary air conditioner compressor manufacturing capacity in the PRC. This means the Group's key
Operating Subsidiaries are close to customers in the residential air conditioning industry, as Guangdong Province
accounts for two thirds of the PRC's air conditioner manufacturing industry revenue. Piston Zhaoqing and Piston
Jingtong are also close to road infrastructure, reducing transport costs and times of heavy weight products to
market. This gives the Group a competitive advantage over more remote manufacturers in this sector. The
geographic location of the Group’s main production facilitates is especially important in meeting the zero inventory
management requirements implemented by the Chinese government, as close proximity to key customers enables
product delivery within three hours, limiting the need to accumulate inventory.

Guangzhou has a developed motor vehicle industry and has a high demand for automotive products.

(h) **Strong manufacturing base**

The Company believes that the Group’s strong manufacturing base provides it with a solid foundation to continue to
expand in its target markets. The Group’s air conditioner manufacturing plant enabled a seamless diversification
into motor vehicle components that underpins the Company's growth strategy.

(i) **Benefits of industrial consolidation**

The Company believes that government-driven consolidation, together with the market drive towards efficiency
improvement, present long term opportunities, by reducing competitors and increasing acquisition opportunities.
The Group was among the first in Guangdong Province to meet government efficiency targets by investing in
advanced manufacturing equipment and research and development. The Company intends to continue this
strategy.

(j) **Strong industry brand**

The Group's success has resulted in a strong brand recognition in its industries, based on the supply of high-quality
products to leading customers over a period of time. The Group enjoys strong relationships with its key customers,
who are themselves key players in their industries.

(k) **Advanced plant and equipment**

The Group's manufacturing facilities and technologies are among the leading in the PRC. It has led the market by
introducing one of the first 23 DISA casting lines in the PRC in 2011, which was followed by over 500 more DISA
lines installed by other foundries nationwide. The Group has been at the forefront of employing efficient
manufacturing processes in the PRC. DISA equipment enables the Group to cost effectively manufacture a wide
range of products and its planned capital investment into new plant and equipment will continue this focus.

(l) **Strong management team**

The Group has a professional and technically experienced team of managers and engineers, who are experienced
in the Group's core industry. The management team has strong business development capabilities, with access to
wide interpersonal networks and social resources. The Group's culture encourages collaboration and cohesion.

(m) **Intellectual Property**

The Group has invested in cementing its competitive advantages by securing a portfolio of registered intellectual
property. Currently, in the product manufacturing and product processing field, the Group has 21 patents, of which 4
are granted invention patents and 17 are granted utility model patents. This helps entrenched the Group with key
customers.

(n) **Recycled input materials saving costs**

The Group has developed, in house, capability to recycle surplus steel from other aspects of the production
processes, leveraging cost advantages that many of its competitors lack. Additionally, the Group internally
processes and recycles its input materials with equipment that was constructed and developed by the Group's own
engineers. A key aspect of this advantage is the composition of the alloy produced by the recycling process, which
was developed by the Group to best service its customers while offering cost advantages.

The Group's innovative recycling solutions are targeted at reducing the impact of input price fluctuations at all stages
of production, to obtain a competitive advantage and improve efficiency.
Commitment to product quality and safety

The Company is committed to high standards of quality and places stringent quality control and safety assurance procedures over the entire production process, from raw material procurement to manufacturing and product packaging, to ensure that it meets the quality standards. A summary of the quality management systems employed by the Group is set out in Section 4.18.

4.15 Key Dependencies

(a) Early stage of diversifying

The Company's strategy to diversify into the motor vehicle sector is in its early stages. Significant capital investment will be needed as the Group rolls out its product diversification strategy to diversify its product range.

(b) Commodity prices

The Group is largely a price taker in relation to its raw material inputs. However, the Group has managed this risk by developing, in house, plant that enables it to use recycled steel scraps, reducing costs relative to competitors. That said, there are no ready substitutes for commodity-based inputs available to the Group's competitors and hence the Group and its competitors are equally affected by adverse commodity price movements.

(c) Risk factors

Aside from the key dependencies mentioned in this Section 4, the Group faces other specific and general risks, some of which are summarised in Section 9. These key dependencies should be considered in conjunction with risk factors identified in that Section.

4.16 Competitors

(a) Residential air conditioner components market

Cast iron components are critical elements of a rotary compressor. The manufacturing of rotary compressor cast iron components is highly fragmented, with up to 100 suppliers within the PRC. The Group's key competitors in the market include: Zhejiang Baida Precision Manufacturing Corp. - a Shanghai Stock Exchange Listed air-conditioner compressor company, Huaxiang Group Co., Ltd, Shanghai Zhaofeng and others.

By offering a broad range of components, the Group is strongly entrenched with its customers.

(b) Automotive components market

Competition in the motor vehicle components industry is high and increasing. The level of industry concentration is low. Revenue of the top four firms in the PRC is expected to account for 12.3% of total industry revenue. It is forecasted that the industry concentration level will remain steady, despite some consolidation and merger activity. Entry by foreign companies are strictly regulated by PRC laws, which require foreign entities to establish joint ventures with domestic firms in order to enter the market.

The Group's major competitors in this market, include:

(i) Wanxiang Group (5% market share) which manufactures chassis and suspension systems, braking systems, transmission systems, wheel hubs, bearings and related auto precise parts;

(ii) Shanghai Automotive Industry Corporation and its subsidiaries (3.4% market share) in partnership with Volkswagen, producing high-end buses, trucks and tractor automotive components in addition to components for passenger motor vehicles;

(iii) Weichai Holding Group Co Ltd (2.6% market share), a manufacturer of motor vehicle, train and luxury yacht components with factories in 8 provinces; and

(iv) Others, including TRW Automotive Holding, TMD Friction Holding, Shandong Gold Phoenix, Long Ji Group, and Hunan Boyun New Material etc.

There are high penetration levels of foreign operators in the motor vehicle manufacturing industry in the PRC. Currently, over 36% of motor vehicle parts of motor vehicles assembled in the PRC are supplied by (either directly or through PRC subsidiaries) non-Chinese suppliers. Foreign operators are currently the sole market for certain automotive parts, such as high-end electronic controls, fuel injection systems, transducers, brake systems and steering systems.
With funds raised under this Prospectus, the Company’s planned investment in new manufacturing equipment (see Section 4.6(d)) will strengthen the Group’s proposition in the motor vehicle components sector.

4.17 Registered trademarks, logos and patents

The Company is constantly seeking opportunities to optimise its production materials and processing technology. To this end, the Group has a dedicated team managing and monitoring patent applications, responding to government feedback and scientific testing to ensure the best practical application and legal outcome for each patent.

Through promoting technological innovation, the Group has acquired intellectual property protecting the Group’s manufacturing technology. The Group’s development of a phosphorus-containing roller piston in compressors, high wear-resistant composite coatings and high Gr/Ni superalloy components, are examples of innovation by the Group that represent its innovation strategy.

The Group’s patents are summarised below:

<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Patente</th>
<th>Type of Patent</th>
<th>Name of Patent</th>
<th>Patent number/Application Number</th>
<th>Date of application</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Piston Zhaoqing</td>
<td>Invention</td>
<td>An iron alloy material and a counterweights made from this alloy</td>
<td>ZL201110390305.4</td>
<td>2011-11-30</td>
<td>20 years</td>
</tr>
<tr>
<td>2</td>
<td>Piston Zhaoqing, Tianjin Polytechnic University</td>
<td>Invention</td>
<td>A type of Piston ring for Rolling Piston Compressor of Air Conditioner and its preparation</td>
<td>ZL201410317320</td>
<td>2014-07-03</td>
<td>20 years</td>
</tr>
<tr>
<td>3</td>
<td>Piston Zhaoqing</td>
<td>Invention</td>
<td>An insulated and wear resistant piston ring used for air conditioning rolling piston compressor and its preparation method</td>
<td>ZL201410727485.4</td>
<td>2014-12-03</td>
<td>20 years</td>
</tr>
<tr>
<td>4</td>
<td>Piston Zhaoqing</td>
<td>Invention</td>
<td>A Ductile Iron Bearing used for Compressors and their Gating System</td>
<td>ZL201510406233.6</td>
<td>2015-07-09</td>
<td>20 years</td>
</tr>
<tr>
<td>5</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>A Clamping Device Used for Bearing Block</td>
<td>ZL201220251844.X</td>
<td>2012 05 30</td>
<td>10 years</td>
</tr>
<tr>
<td>6</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>A Clamping Device Used for Bearing Block</td>
<td>ZL201620808795.9</td>
<td>2016 07 27</td>
<td>10 years</td>
</tr>
<tr>
<td>7</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>Counterweights, Compressor and Electrical Appliance</td>
<td>ZL201620807994.2</td>
<td>2016 07 27</td>
<td>10 years</td>
</tr>
<tr>
<td>8</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>Counterweights, Compressor and Air Conditioning</td>
<td>ZL201620807201.7</td>
<td>2016 07 27</td>
<td>10 years</td>
</tr>
<tr>
<td>9</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>Automatically Prepared Die of Counterweights Wax Pattern</td>
<td>ZL201620807991.9</td>
<td>2016 07 27</td>
<td>10 years</td>
</tr>
<tr>
<td>10</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>Comprehensive Measuring Unit for Counterweights</td>
<td>ZL201620808155.2</td>
<td>2016 07 27</td>
<td>10 years</td>
</tr>
<tr>
<td>11</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>Monolithic Frock of Counterweights for Compressor</td>
<td>ZL201620808153.3</td>
<td>2016 07 27</td>
<td>10 years</td>
</tr>
<tr>
<td>12</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>Gating system</td>
<td>ZL201320507530.6</td>
<td>2013 08 19</td>
<td>10 years</td>
</tr>
<tr>
<td>13</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>Machine tool with chip removal device</td>
<td>ZL201320496917.6</td>
<td>2013 08 14</td>
<td>10 years</td>
</tr>
<tr>
<td>14</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>Spheroidizing package</td>
<td>ZL201320496920.8</td>
<td>2013 08 14</td>
<td>10 years</td>
</tr>
<tr>
<td>15</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>Clamping device</td>
<td>ZL201320500459.9</td>
<td>2013 08 15</td>
<td>10 years</td>
</tr>
<tr>
<td>16</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>A piston casting gating system</td>
<td>ZL201520498141.0</td>
<td>2015 07 09</td>
<td>10 years</td>
</tr>
<tr>
<td>17</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>A crankshaft casting gating system</td>
<td>ZL201520500901.7</td>
<td>2015 07 09</td>
<td>10 years</td>
</tr>
<tr>
<td>18</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>A crankshaft machining tool</td>
<td>ZL201520500905.5</td>
<td>2015 07 09</td>
<td>10 years</td>
</tr>
<tr>
<td>19</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>A crankshaft Spring hole processing fool proof fixture</td>
<td>ZL201520500921.4</td>
<td>2015 07 09</td>
<td>10 years</td>
</tr>
<tr>
<td>20</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>An anti thrust tripping sleeve</td>
<td>ZL201520500696.4</td>
<td>2015 07 09</td>
<td>10 years</td>
</tr>
<tr>
<td>21</td>
<td>Piston Zhaoqing</td>
<td>Utility model</td>
<td>A cylinder exhaust slot processing fixture</td>
<td>ZL201520500922.9</td>
<td>2015 07 09</td>
<td>10 years</td>
</tr>
</tbody>
</table>
4.18 Management Systems

(a) Quality Management Systems


ISO 9001:2008 and ISO 14001:2004/Cor 1:2009 have recently been revised and updated and the Group is working towards meeting certification under the revised standards.

(b) Quality Management Processes

In order to maintain product safety and high quality standards, the Group implements a strict set of quality control policies and inspection protocols. These policies and protocols are enforced by the Company’s senior management and officers along every step of the production to post-production process. This process is led by the General Manager and the Deputy General Manager of Technology and includes:

(i) inspection standards, specifications and technical documents;
(ii) inspection of raw materials, outsourced manufacturing, procured inputs and completed products;
(iii) collection and organisation of raw data; and
(iv) management of testing equipment.

Key elements are summarised below:

Product inspection standards

The Group implements production standards that help ensure compliance with certification standards. The production team adheres to the following criteria when making its product assessment:

(i) Visual inspection: visual inspection is conducted at room temperature; the product is observed by the naked eye to identify patent defects, scratches or cracks and to measure its dimensions;
(ii) Metallographic tests: metallographic examination methods are used by the Group’s metallographic and chemical laboratories to test and monitor chemical composition, tensile strength, surface and internal flaws and microstructural features; and
(iii) Stress testing: All products undergo product stress testing by agreed protocols with customers.

The Group employs quantitative standards with respect to each of these areas to determine acceptability.

Inspection and use of raw materials

Raw materials are tested using chemical and spectral analysis protocols, as well as photometric testing and titration analysis, depending on the material concerned.

Personnel management and training

The Group believes that high quality personnel with technical expertise is quite essential to producing high quality products. To this end:

(i) Personnel selection criteria: The Group’s human resources function liaises with the management team and determines the Group’s personnel needs. All technical staff must possess the necessary qualifications and/or licences that apply in their specialist fields.
(ii) New staff training: New staff undertake training specific to their department; training and induction programs are organised in conjunction with line managers; and
(iii) Ongoing internal training: All employees undertake ongoing training programmes.
05

BOARD, MANAGEMENT AND GOVERNANCE
5.1 Board of Directors

The Board is cognisant of investor expectations with respect to governance and communications. In this regard, the Board is comprised of Australian and PRC resident Directors with extensive skills and experience in business operations and governance.

The Board is well positioned to implement the Company's strategic objectives. The following table provides information regarding the Directors:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Independence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dennis Trlin</td>
<td>Non-Executive Chairman</td>
<td>Independent</td>
</tr>
<tr>
<td>Pingfan Jia</td>
<td>Executive Director and Chief Executive Officer</td>
<td>Not Independent</td>
</tr>
<tr>
<td>Lei Wang</td>
<td>Executive Director</td>
<td>Not Independent</td>
</tr>
<tr>
<td>Xianjun Yuan</td>
<td>Executive Director</td>
<td>Not Independent</td>
</tr>
<tr>
<td>Peter Wong</td>
<td>Non-Executive Director</td>
<td>Independent</td>
</tr>
</tbody>
</table>

Notes: 1. The Company considers that a Director is independent where that Director is free from any business or other relationship that could materially interfere, or be perceived to interfere with, the independent exercise of the Director’s judgement. The Company has also assessed the independence of its Directors regarding the requirements for independence which are set out in Principle 2 of the ASX Corporate Governance Principles.

5.2 Details of Directors

Details of each of the Directors are set out below.

<table>
<thead>
<tr>
<th>Denis Trlin</th>
<th>Expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive Chairman</td>
<td>Dennis Trlin was appointed as a director of the Company immediately prior to lodgement of the Prospectus. With a strong background in corporate advisory and research, Mr Trlin began his career as an equities analyst, with expertise in equities research. Mr Trlin is currently a director of Value Set Investments, a corporate advisory firm to ASX listed companies and start-ups. Mr Trlin’s experience in establishing and managing companies is extensive and includes a directorship with Platypus Minerals which he co-founded, successfully positioning the company to become a Lithium focused explorer and developer through its acquisition of Lepidico Ltd.</td>
</tr>
</tbody>
</table>

| Qualifications | Bachelor of Economics (majoring in Economics and Finance), Graduate Diploma of Applied Finance and Investment. |
| Location       | Perth, Western Australia, Australia. |

| Legal or disciplinary action | Nil |
| Insolvent companies | Nil |

<table>
<thead>
<tr>
<th>Pingfan Jia</th>
<th>Expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director, Chief Executive Officer</td>
<td>Mr Jia studied at China University of Geosciences, obtaining a bachelor’s degree in Engineering, majoring in Geology, in 1988. He then became Head of the Department of Research in the Northern China Petroleum Geology Bureau. In June 2000, Mr Jia began working at Guangzhou Weifeng Internal Combustion Engine Machinery Co Ltd and as founder of the Group, has been General Manager and CEO of the Group since its inception.</td>
</tr>
</tbody>
</table>
Lei Wang

Expertise

Mr. Wang studied at the Guizhou Aerospace Industry School (also known as Zunyi Astronautics Industrial School). He graduated with a Bachelor's degree in Engineering Management in 2004. Mr. Wang spent 7 years at the state-owned Chaohui Electric Factory, where he became a manager. Mr. Wang then moved to Guizhou Aerospace Electric Co Ltd as Deputy General Manager, CFO and company secretary, where he was responsible for matters such as restructuring, finance and personnel.

Mr. Wang then became the Executive Vice President of Beijing Dexin Investment Management Co Ltd, a private equity company, where he oversaw and implemented various investment projects, before being appointed as Deputy Chairman of the Group in 2013, at which time he also became a shareholder of Piston Zhaoqing.

Mr. Wang has managed restructuring, initial public offerings and finance projects in the PRC. He has received several provincial and ministerial level management innovation awards.

Qualifications

Bachelor’s Degree in Petroleum Geology.

Location

Guangzhou City, Guangdong Province, PRC.

Legal or disciplinary action

Nil

Insolvent companies

Nil

Xianjun Yuan

Expertise

Mr. Yuan studied engineering at the Luoyang Institute of Technology (also known as Henan University of Science and Technology), majoring in equipment casting processes, graduating in 1985.

Mr. Yuan is an expert in wear resistant materials, with a background in business and technical management work spanning 30 years. Mr. Yuan began his career at the Nanjing Automotive Manufacturing Factory and remained there for 15 years holding positions as Assistant General Manager and Deputy General Manager. After leaving Nanjing Automotive Manufacturing Factory in 2010, Mr. Yuan served as Deputy General Manager of Operations at CRRC Corp Ltd, a publicly listed rolling stock manufacturer, for 6 years.

During 2016, Mr. Yuan joined Piston Zhaoqing as General Manager, responsible for managing the company’s operations and R&D. During that time, he has overseen the expansion of the Group’s patent portfolio, managed R&D across the Group and is leading product development in wear resistant materials, focussing on counterweights and piston products for air conditioners.

Mr. Yuan co-ordinates Group R&D and product development.

Qualifications

Bachelor’s degree in Engineering (casting technology and equipment).

Location

Nanjing City, Jiangsu Province, PRC.
Peter Wong

Expertise

Mr Wong has 30 years’ experience in the financial services industry. He has gained extensive experience across a wide spectrum of business functions including audit, taxation, finance, operations, technology, HR, risk management, compliance and control.

Mr Wong started his career in the accounting profession in 1984 and trained with two major international accounting firms, Deloitte and PwC. He subsequently joined several large corporations, where he took up senior positions managing large portfolios of business functions and people. His experience includes roles with Citibank, Hong Leong Group (Malaysia), Hong Kong Stock Exchange and Hong Kong Telecom. Before coming to Australia, Peter spent 3 years with Citibank China in Shanghai and another 2 years with Shanghai Pudong Development Bank, a strategic partner of Citibank.

Having worked in the United Kingdom, Hong Kong, Malaysia, the PRC and Australia, Mr Wong is familiar with financial and business practices across Asia. He has extensive knowledge of cross-border trade and investment. He focuses on providing financial, taxation and investment advice to Australian and Asian enterprises doing business in the Asia-Pacific region.

Mr Wong is experienced in corporate governance, holding the position of CFO with Traditional Therapy Clinics Limited and Australia Wetouch Technology Ltd and non-executive directorships with Jiajiafu Modern Agriculture Ltd and Beroni Group Ltd.

Qualifications

Bachelor of Science, Diploma of Financial Planning, Master of Business Administration, Chartered Tax Advisor and Fellow of Chartered Accountants (ICAEN, CAANZ).

Location

Sydney, New South Wales, Australia.

Legal or disciplinary action

Nil

Insolvent companies

Nil

5.3 Details of Management

Details of senior management of the Group is set out below.

Keekee Wang

Expertise

Ms Wang has over ten years of professional experience, five of which were with PwC Australia in providing corporate, commercial, and immigration services. Ms Wang is a practicing lawyer and a Registered Migration Agent.

Ms Wang's corporate and commercial legal experience includes establishing companies in Australia and ongoing company secretarial assistance, Australian foreign investment compliance assistance, contract drafting and negotiations as well as buy and sell-side transaction representation.

Ms Wang has a Bachelor of Law and a Bachelor of English Language and Literature from Liaoning University in China and a Diploma of Law and a Master of Law from the University of Sydney in Australia. Ms Wang is admitted to the Supreme Court of New South Wales and is a member of the New South Wales Law Society.

Ms Wang has worked with Chinese state owned and private enterprises, such as State Grid Corporation of China, China Offshore Oil Services, Shandong Landbridge Group, Shanxi Donghui Coking Coal Group, Shandong Energy Australia Pty Ltd and Ever Grand Real Estate Group. Ms Wang is currently employed by Tricor Chew, a part of the Tricor Group, a global provider of integrated business, corporate and investor services.

Qualifications

Bachelor of Law, Bachelor of English Language and Literature, Diploma of Law and Master of Law

Location

Sydney, New South Wales.
Mr Xiong has been Piston Zhaoqing’s Finance Manager since 2010. He holds a CICPA (China Certified Public Accountant) Certificate. Mr Xiong graduated from Hunan Xianxi Autonomous Prefecture Business School in 1991, where he majored in accounting and from Hunan Radio and Television University in 2000.

Mr Xiong's experience includes working in Hunan Changde Far East Rare Metal Company as a General Ledger Accountant for 3 years and Hunan Sanzhu Group as Lead Accountant for 7 years. Mr Xiong then spent 8 years at Jingda Clothing Manufacture as Assistant Finance Director, before moving to the Guangdong Yuanrui Accountant Taxation Bureau Co., Ltd as a Project Manager.

Mr Xiong has strong accounting, financial, management and internal control experience. In his role as Finance Manager, Mr Xiong oversees the Operating Subsidiaries’ accounting, audit and financial functions and manages communication with government and bank officials. He will assume the role of Group Chief Financial Officer (CFO) upon Completion of the Offer.

**Qualifications**

CICPA China Certified Public Accountant Certificate.

**Location**

Zhuhai City, Guangdong Province, PRC.

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Mr Wang became the supervisor of the General Affairs Department of Zhaoqing Piston in March, 2013. Previously, Mr Wang worked at Zhongxing Tong Xun Pty Ltd as an engineer for a year and a half before becoming an engineer at GMCC Meizhi for two years.

Mr Wang's academic qualifications include a Bachelor of Industrial Engineering from Henan Polytechnic University and a Master's Degree in Management Science and Engineering from Chongqing University.

**Qualifications**

Bachelors of Industrial Engineering, Master of Machinery Engineering.

**Location**

Zhaoqing City, Guangdong Province, PRC.

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Mr Xu is an engineer with more than 30 years' experience in the compressor industry, with experience in both management and marketing. He has extensive knowledge and skills in product development and application. In his role as Vice General Manager, Mr Xu oversees the air conditioner compressor business and assists with strategic management of this business.

**Qualifications**

Bachelors of Industrial Engineering, Master of Machinery Engineering.

**Location**

Zhaoqing City, Guangdong Province, PRC.
5.4 Directors’ Interests in Securities

The table below sets out the interests of the Directors as at the date of this Prospectus and as at Completion of the Offer.

<table>
<thead>
<tr>
<th>Name</th>
<th>Shares held directly or indirectly</th>
<th>% of issued Shares at date of Prospectus</th>
<th>% of issued Shares at completion of Minimum Raising</th>
<th>% of issued Shares at Completion of Maximum Raising</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pingfan Jia</td>
<td>64,360,879</td>
<td>57.21%</td>
<td>42.91%</td>
<td>39.61%</td>
</tr>
<tr>
<td>Lei Wang</td>
<td>27,583,234</td>
<td>24.52%</td>
<td>18.39%</td>
<td>16.97%</td>
</tr>
<tr>
<td>Xianjun Yuan</td>
<td>1,089,705</td>
<td>0.97%</td>
<td>0.73%</td>
<td>0.67%</td>
</tr>
<tr>
<td>Peter Wong</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Dennis Trlin</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Notes:
1. Through a 70% interest in GdWill Trading Co. Ltd
2. Through a 30% interest in GdWill Trading Co. Ltd
3. Through a 27.6% interest in Honoas Trading Co. Ltd

5.5 Directors’ Remuneration

(a) Non-executive Directors’ remuneration

The Board determines Director remuneration. Under ASX Listing Rules, the total amount paid in aggregate per year to all non-executive Directors must not exceed, in any financial year, the amount fixed for that purpose in a general meeting of the Company. This amount has not yet been set. All non-executive Directors’ fees include superannuation at the statutory rate.

Annual fees agreed to be paid to the Non-Executive Directors are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Annual Fee incl. super</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peter Wong</td>
<td>Non-Executive Director</td>
<td>$40,000</td>
</tr>
<tr>
<td>Dennis Trlin</td>
<td>Non-Executive Director</td>
<td>$40,000</td>
</tr>
</tbody>
</table>

Non-Executive Directors, when performing extra work or services beyond those in their capacities as non-executive Directors, may be remunerated as agreed by the Board. There are no retirement benefit schemes for Directors other than statutory superannuation contributions.

(b) Chief Executive Officer remuneration – Mr Pingfan Jia

Mr Pingfan Jia is the Chief Executive Officer of the Group. From the date of lodgement of this Prospectus, Mr Jia will receive an annual fixed remuneration of $30,000 inclusive of statutory superannuation. Pursuant to Mr Jia’s executive contract, Mr Jia may resign from his position by giving 6 months’ notice in writing. Mr Jia’s employment may be terminated by the Company by giving 6 months’ notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Mr Jia’s employment may be terminated immediately by notice in writing from the Company, without payment in lieu of notice.

(c) Executive Director remuneration – Mr Lei Wang and Mr Xianjun Yuan

Mr Lei Wang and Mr Xianjun Yuan are Executive Directors of the Company. As from lodgement of the Prospectus, Mr Wang will receive an annual fixed remuneration of $30,000 and Mr Yuan will receive an annual fixed remuneration of $10,000 by way of Director’s fee and a fixed annual salary of $53,788 (RMB 280,000). Pursuant to Mr Wang and Mr Yuan’s executive contracts, each may resign from his position by giving 3 months’ notice in writing. Their employment may be terminated by the Company by giving 3 months’ notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Mr Wang and Mr Yuan’s employment contract may be terminated immediately by notice in writing from the Company, without payment in lieu of notice.
5.6 Corporate governance

The Board is cognisant of the need for a well-articulated and robust corporate governance framework and believes that good corporate governance is essential to the preservation and enhancement of Shareholder value. The Board believes that the success of the business is strengthened by implementing clearly articulated policies to enhance accountability, efficiency and the reliable measurement of performance.

The Board has adopted a Board Charter, which sets out the key corporate governance principles and procedures of the Company. The Charter and other corporate governance documents are available on the Company’s website at www.zqpst.com. These key documents will be kept under review by the Board and amended from time to time.

The Charter and the other governance measures reflect the Board’s endorsement of the recommendations contained in the ASX Corporate Governance Council’s Principles and Recommendations, 3rd edition, 2014. Those principles marked with a “■” either have not been fully implemented or are to be addressed during the FY2018 reporting year. The commentary addresses the reasons for the departure from the requirements.

### Principle 1 – Lay solid foundations for management and oversight

1.1 All Directors and senior executives have a written agreement with the Company or a member of the Group setting out the terms of their appointment.

1.2 The Company Secretary is accountable directly to the Board, through the Chairman on all matters to do with the proper functioning of the Board.

1.3 The Board has adopted a Diversity Policy (a copy of which is on the Company’s website). The Diversity Policy requires the Board to set measurable objectives for obtaining gender diversity.

1.4 At least once per year, the Board will, with the advice and assistance of the Nomination and Remuneration Committee (NRC), review and evaluate the performance of the Board, each Board committee and each individual Director against the relevant charters, corporate governance policies and agreed goals and objectives.

1.5 Performance reviews for Executive Directors and senior management will take place at least annually. The NRC has accountability in its charter to oversee these reviews and report to the Board on their outcomes. The Company intends to ensure appropriate disclosures in the remuneration report are made in relation to each reporting period as to the performance evaluations that were undertaken and the process that was followed.

### Principle 2 – Structure the Board to add value

2.1 The Board has formed a Nomination and Remuneration Committee. The charter for the Nomination and Remuneration Committee is available on the Company’s website. Membership of the Nomination and Remuneration Committee is: Mr Peter Wong, Mr Dennis Trlin and Mr Pingfan Jia.

2.2 In establishing the Board, regard was had to the skills and expertise required of the Directors relevant to the Group’s business, its Listing in Australia and operations in the PRC. Directors with the desired skills and expertise were carefully selected for appointment to the Board.

2.3 & 2.4 The Board Charter sets out the criteria adopted by the Board for considering if a Director is independent. The Board is comprised of five members, two of whom are independent. Mr Wong and Mr Trlin are considered independent, as neither of them has shareholding in the Company or is an adviser or supplier to the Company or has any other material contractual relationship with the Company (other than their position as a Director). The Company has considered the recommendation of having a majority of the Board as independent Directors. However, the Board has considered the Company’s immediate requirements as it transitions to an ASX-listed company and is satisfied that the composition of the Board reflects an appropriate range of independence, skill and experience in the period immediately after Listing on ASX. Together, the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the business of the Company.
The Chairman is an independent Director and facilitates the effective contribution of all Directors at Board meetings. The roles of Chairman and Executive Director are exercised by different individuals.

All Non-Executive Directors have had an induction into the business of the Company prior to accepting their appointment and have received continuing information about the Company and its operations since being appointed. Directors are also given access to continuing education in relation to the Company extending to its business, the industry in which it operates and other information required by them to discharge the responsibilities of their office.

Principle 3 – Act ethically and responsibly

3.1 The Board has adopted a code of conduct applicable to all Directors, senior executives and employees, a copy of which is on the Company’s website.

Principle 4 – Safeguard integrity in financial reporting

4.1 The Board has established an Audit and Risk Committee (ARC). The ARC is comprised of a majority of Non-Executive Directors, its composition being Mr Peter Wong, Mr Dennis Trlin and Mr Lei Wang. The qualifications of the members of the ARC are set out in the Prospectus in Section 5.2.

A copy of the ARC charter is on the Company’s website.

4.2 The Board has not yet had to approve the Company’s financial statements for a financial period and accordingly, has not been required to receive relevant declarations from the CEO and CFO in respect of the financial records of the Group. It is the intention of the Board that these declarations will be required for both the half-year and full-year results and this fact has been communicated to both the CEO and CFO.

4.3 The Company has not yet held an Annual General Meeting (AGM), but it is the intention of the Board to ensure that its external auditor attends the AGM and is available to answer questions from security holders relevant to the audit.

Principle 5 – Make timely and balanced disclosure

5.1 The Board has established a written Continuous Disclosure Policy to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability for compliance. Each Board meeting considers whether any continuous disclosure issues arose during the course of the meeting. The Continuous Disclosure Policy is on the Company’s website.

Principle 6 – Respect the rights of Shareholders

6.1 The Company has established an English website which provides information about the Group, Directors and executives, key governance policies and other information relevant to its investors. The website will be a key communication tool between the Company and Shareholders.

6.2 The Company has not yet designed and implemented an investor relations program to facilitate effective two-way communication with investors, however, the Board recognises its importance and will put in place a tailored program following the Completion of the Offer.

6.3 The Board has adopted a Shareholder Communication Policy and will provide Shareholders with opportunities to have questions addressed at Shareholder meetings, irrespective of whether the Shareholder is able to attend. A copy of the Shareholder Communication Policy is on the Company’s website.

6.4 All Shareholders will be able to communicate with the Company and its share registry electronically. This method of communication is encouraged.
**Principle 7 – Recognise and manage risk**

7.1 The Board has established a combined Audit and Risk Committee (ARC). The ARC is comprised of a majority of Non-Executive Directors, its composition being Mr Peter Wong, Mr Dennis Trlin and Mr Lei Wang. The qualifications of the members of the ARC are set out in the Prospectus in Section 5.2. A copy of the ARC charter is on the Company’s website.

7.2 The risk management framework for the Group has not yet been formally reviewed by the Board, but the Board has requested a report from management by December 2017. The Board has appointed the ARC to assist it with discharging its oversight function in respect of material business risks and to determine if the current system of risk management is sound. Outcomes of those reviews will be reported in the Corporate Governance Statement, annually.

7.3 The Group has various quality assurance functions throughout the business, but not a dedicated internal audit function. It is the Board’s intention that the ARC reviews the need for an internal audit function, the scope of any such function, should one be required and whether it will be insourced or outsourced. The outcome of the review will be reported in the Company’s annual report.

7.4 As mentioned under Principle 7.2, the Board expects a report on the risk management framework by December 2017 and has requested that management address economic, environmental and sustainability risks. The outcome of that review will be reported in the Company’s annual report.

**Principle 8 – Remunerate fairly and responsibly**

8.1 The Board has formed a combined Nomination and Remuneration Committee (NRC). Membership of the NRC is: Mr Peter Wong, Mr Dennis Trlin and Mr Pingfan Jia. A copy of the charter for the NRC is on the Company’s website. The qualifications of the members of the NRC are set out in Section 5.2.

A copy of the charter for the NRC is provided on the Company’s website.

8.2 The Board has adopted a remuneration policy for Non-Executive Directors. A remuneration policy for Executive Directors and other senior executives will be developed post Completion of the Offer. A copy of the Non-Executive Director remuneration policy is provided on the Company’s website.

8.3 The Company’s Securities Trading Policy prohibits participants of any equity-based remuneration scheme entering into transactions, which limits the economic risk of a participant.
6.1 Introduction

(a) General

The Company is seeking to raise up to $20,000,000 through the issue of up to 50,000,000 Shares under the Offer. The Offer is a general public offer. The allocation of Shares among the Applicants will be determined by the Company at its absolute discretion.

The Offer is not underwritten.

A Minimum Subscription amount of $15,000,000, representing 37,500,000 Shares at the Offer Price of $0.40 per Share, is required under the Offer. The Offer will not proceed and all Applications and associated Application Moneys will be returned to Applicants without interest if the Minimum Subscription amount is not raised. The Company reserves the right not to proceed with the Offer or any part of it at any time before the allotment of Shares to Applicants under the Offer.

The Offer Shares will be issued as fully paid Shares, ranking equally with all existing Shares on issue.

(b) Timetable

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prospectus date</td>
<td>5 September 2017</td>
</tr>
<tr>
<td>Offer opens</td>
<td>12 September 2017</td>
</tr>
<tr>
<td>Offer closes</td>
<td>10 November 2017</td>
</tr>
<tr>
<td>Anticipated date of allotment</td>
<td>17 November 2017</td>
</tr>
<tr>
<td>Shareholding statements expected to be dispatched</td>
<td>22 November 2017</td>
</tr>
<tr>
<td>Anticipated commencement of ASX trading</td>
<td>28 November 2017</td>
</tr>
</tbody>
</table>

The Company reserves the right to close the Offer early or to extend the Closing Date, should it consider it necessary, subject to the Corporations Act and Listing Rules.

6.2 Application for Shares

To participate in the Offer, you may either:

(a) apply online and pay electronically (recommended); or

(b) complete the Application Form attached to this Prospectus.

To apply online, you must enter the following link into your browser:

To make a standard paper based application, you must complete the Application Form attached to this Prospectus. The Application Form contains detailed instructions on how to complete the form. You must send your completed Application Form, cheque or bank draft for the Application Moneys to the Registry at the address set out below:

Poster to: Piston Machinery Ltd Offer  
c/ Automic Registry Services  
PO Box 2226  
Strawberry Hills NSW 2012

Delivered to: Piston Machinery Ltd Offer  
c/ Automic Registry Services  
Level 3, 50 Holt Street  
Surry Hills NSW 2010

All cheques must be in Australian currency, drawn at an Australian branch of a financial institution, be "Not negotiable" and made payable to "Piston Machinery Ltd Offer".

Applicants should ensure that sufficient funds are held in the relevant account(s) to cover any cheque drawn. If the amount of your cheque is insufficient to pay for the number of Shares you have applied for in your Application Form, you may be taken to have applied for such lower number of Shares as your cleared Application Moneys will pay for, or your Application may be rejected.
6.3 Acceptance

The Share Registry must receive your Application by no later than 5pm AEST on the Closing Date. A completed Application Form constitutes an irrevocable offer to the Company to subscribe for Shares on the terms and conditions set out in this Prospectus and as set out in the Application Form.

The allotment of Shares to Applicants will occur as soon as practicable after Application Forms and Application Moneys have been received for the Shares being offered, following which Holding Statements will be dispatched. It is the responsibility of Applicants to determine their allocation prior to trading in the Shares. Applicants who sell Shares before they receive their statement of holding do so at their own risk.

The Company reserves the right, to:

(a) the maximum extent permitted by law, reject any Application or to allocate to any Applicant, fewer Shares than the number applied for;
(b) reject or aggregate multiple applications in determining final allocations;
(c) reject any application including those not correctly completed or accompanied with dishonoured payments;
(d) accept late applications;
(e) allocate to an Applicant a lesser number of Shares than those for which the Applicant has applied; and
(f) waive or correct any errors made by an Applicant on their Application Form.

6.4 Withdrawal or early close

The Company reserves the right to withdraw the Offer at any time before the issue of Shares. If the Offer is withdrawn, Application Moneys will be refunded. No interest will be paid on any Application Money refunded as a result of the withdrawal of the Offer or otherwise. The Company will retain for its own use, any interest which accrues on Application Moneys.

The Company reserves the right to close the Offer early.

6.5 Brokerage, commission and stamp duty

You do not have to pay brokerage, commission or stamp duty if you acquire Shares under the Offer. Fees are payable, in relation to the Offer, to AGC Capital Securities, the Lead Manager. Details are set out in “Interests of experts and advisers” in Section 11.20. These fees will be paid out of the proceeds of the Offer.

6.6 Allocation of Shares

The acceptance of Applications and the allocation of Shares are at the discretion of the Company. In consideration for the Directors agreeing to consider an Applicant's Application, the Applicant agrees its Application is an irrevocable offer to subscribe for the Shares set out in the Application Form, which cannot be withdrawn. The Company reserves the right to reject any Application and to allot to an Applicant a lesser number of Shares than the number for which the Applicant applies. No Applicant under the Offer has any assurance of being allocated all or any Shares applied for.

6.7 Application Moneys

All Application Moneys will be held in a special purpose trust account until the Shares are issued to Successful Applicants. Application Moneys will be refunded, either in part or in full, if:

(a) an Application is rejected;
(b) an Application is subject to a scale back;
(c) the Offer is withdrawn or cancelled;
(d) the Minimum Subscription is not achieved; or
(e) permission for quotation of the Shares is not granted within 3 months after the date of this Prospectus or such longer time as permitted by the Corporations Act (or ASIC).

No interest will be paid on any Application Moneys that are refunded. After the Listing, or if Listing does not occur, the Company will retain any interest earned on Application Moneys. Refund cheques will be sent after the close of the Offer or as otherwise applicable under the circumstances outlined above.
6.8 ASX Listing

The Company will, within seven days of the date of this Prospectus, apply for admission to the official list of ASX and for Official Quotation on ASX of the Shares offered under this Prospectus. Trading of Shares on ASX is expected to commence on 28 November 2017.

The Company will apply to participate in the Clearing House Electronic Sub-register System (CHESS), operated by ASX Settlement (a wholly owned subsidiary of the ASX), in accordance with the Listing Rules and ASX Settlement Operating Rules. On admission to CHESS, the Company will operate an electronic issuer-sponsored sub-register and an electronic CHESS sub-register. The two sub-registers together will make up the principal register of securities. Under CHESS, the Company will not issue share certificates to Successful Applicants following allotment. The Company will provide each Shareholder whose address is in Australia with a Holding Statement (similar to a bank account statement) which sets out the number of Shares allotted to the Shareholder under this Prospectus. If applicable, the Holding Statement will also advise Shareholders of their Holder Identification Number or Sponsoring Issuer Number. If a Shareholding changes during a month, the Shareholder will receive a statement at the end of that month. Shareholders may also request statements at any other time (although the Company may charge an administration fee).

It is expected that initial Holding Statements will be despatched by standard post on 22 November 2017 and that trading of Shares on a normal settlement basis will commence on 28 November 2017. If you apply, it is your responsibility to determine your allocation before you trade any Shares. If you trade any Shares before you receive your initial Holding Statement, then you do so at your own risk.

The fact that ASX may agree to grant Official Quotation to any Shares is not to be taken in any way as an indication of the merits of the Company or the Shares offered. ASX takes no responsibility for the contents of this Prospectus. If permission for quotation of the Shares is not granted within 3 months after the date of this Prospectus, Application Monies will be refunded without interest as soon as practicable.

6.9 Risks of the Offer

An investment in securities of the Company should be regarded as speculative.

In addition to the general risks applicable to all investments in listed securities, there are specific risks associated with an investment in the Company, which are described in section 9.

6.10 Tax implication of investing

The tax consequences of any investment in the Shares will depend on your particular circumstances. Applicants should obtain their own tax advice prior to deciding whether or not to invest. A general, illustrative summary of the tax implications of investing in the Company is contained in Section 11.4.

6.11 Foreign investors

This Prospectus and the Offer do not constitute an offer or invitation in any place to any investor, where it would not be lawful to make such an offer. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia.

(a) The PRC

The information in this document does not constitute a public offer of the Offer Shares, whether by way of sale or subscription, in the PRC (excluding, for the purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The Shares may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to “qualified domestic institutional investors”.

(b) Hong Kong

This Prospectus has not been and will not be, registered as a Prospectus under the Hong Kong Companies Ordinance, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinary (Cap 571) of the laws of Hong Kong (SFO). No action has been taken in Hong Kong to authorise or register this Prospectus or to permit the distribution of this Prospectus or any documents issued in connection with it. Accordingly, the Shares have not been and will not be offered or sold in Hong Kong other than to “professional investors” as defined in the SFO. No person allotted Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within 6 months following the date of issue of such securities.

The contents of this Prospectus has not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in doubt as to the contents of this Prospectus, you should obtain independent professional advice.
This Prospectus has been given to you on the basis that you are (i) an “institutional investor” (as defined in section 4A(1)(c) of the SFA) or (ii) a “relevant person” (as defined in section 275(2) of the SFA) or (iii) a person to whom an offer is being made, as referred to in section 275(1A) of the SFA. By accepting this Prospectus, you represent and warrant that you are an investor falling within the categories set out above and agree to be bound by the disclaimers, limitations and restrictions described herein. In the event that you are not an investor falling within any of the categories set out above, please return this Prospectus immediately. You may not forward or circulate this Prospectus to any other person in Singapore.

Any offer is not made to you with a view to these securities being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire these securities. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

This Prospectus may not be released or distributed in the United States. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this Prospectus has not been and will not be, registered under the US Securities Act 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act 1993 and applicable US state securities law.

This Prospectus does not constitute a public offer or invitation in any jurisdiction other than Australia. No action has been taken to register or qualify the Offer, or to otherwise permit a public offering of Shares in any jurisdiction outside Australia. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who reside outside Australia and who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. It is the responsibility of applicants outside Australia to obtain all necessary approvals for the issue of the Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the applicant that all relevant approvals have been obtained.

The Company will not offer to sell or solicit an offer to purchase any securities in any jurisdiction where such offer, sale or solicitation may not lawfully be made. Any failure to comply with these restrictions may constitute violation of applicable securities laws.

6.12 Governing Law

The Offer and the contracts formed on acceptance of an Application, are governed by the laws applicable in New South Wales, Australia. Each person who applies for Shares pursuant to this Prospectus submits to the non exclusive jurisdiction of the courts of New South Wales, Australia and the relevant appellate courts.

6.13 Enquiries

Any queries regarding the Offer should be directed to the Share Registry on 1 300 288 664 (from within Australia) or +61 2 9698 5414 (from outside Australia), between 8.30am to 5:00pm, AEST.
7.1 Introduction

The financial information set out in this Section includes the following:

(a) summary historical audited statutory consolidated statement of profit or loss and other comprehensive income for Piston Zhaoqing for the 12 months ended 31 December 2014 (FY2014), the 12 months ended 31 December 2015 (FY2015), and the 12 months ended 31 December 2016 (FY2016) (Historical Statement of Profit or Loss and Other Comprehensive Income);

(b) unaudited historical and pro forma consolidated statement of financial position of Piston Machinery Ltd as at 31 December 2016 (Historical and Pro forma Consolidated Historical Statement of Financial Positions); and

(c) summary historical audited statutory consolidated statement of cash flows for Piston Zhaoqing for FY2014, FY2015 and FY2016 (Historical Statement of Cash Flows),

together (the Historical and Pro forma Financial Information).

The Historical and Pro forma Financial Information should be read together with the other information contained in this Prospectus, including:

(a) management's discussion and analysis set out in Section 7.5;
(b) the use of proceeds of the Offer described in Section 4.6(d);
(c) the indicative capital structure described in Section 2.1;
(d) the Independent Limited Assurance Report on the Historical and Pro forma Financial Information set out in Section 8;
(e) the risk factors described in Section 9; and
(f) the other information contained in this Prospectus.

7.2 Basis of preparation of the Historical and Pro forma Financial Information

The Historical and Pro forma Financial Information included in this section has been prepared in accordance with the recognition and measurement principles prescribed by International Financial Reporting Standards (IFRS). The Directors are not aware of any reconciliatory differences between the application of IFRS and the Australian equivalents to International Financial Reporting Standards (AIFRS) which require disclosure within this financial information section.

There are no differences between AIFRS and IFRS which impact the Group's financial performance and accounting policies, however there is a particular accounting standard, AASB 1054 which discusses specific disclosure for audit fees, imputation credits and a reconciliation of net operating cash flow to profit. None of this additional disclosure is relevant to the Prospectus and is geared towards financial statement disclosure.

The consolidated general purpose financial statements of Piston Group will be prepared in accordance with the Corporations Act, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the IFRS as issued by the International Accounting Standards Board. The first reporting period under AIFRS will occur at 31 December 2017.

The significant accounting policies of the Company relevant to the Historical and Pro Forma Financial Information are set out in Annexure 1 to this Prospectus. The accounting policies of the Company have been consistently applied throughout the periods presented.

The Historical and Pro forma Financial Information is presented in an abbreviated form and does not contain all of the disclosures, statements or comparative information required by Australian Accounting Standards applicable to financial reports prepared in accordance with the Corporation Act.

The Historical and Pro forma Financial Information has been prepared for the purpose of the Offer.

The Historical and Pro forma Financial Information has been derived from the audited historical statutory consolidated financial statements of Piston Zhaoqing for FY2014, FY2015 and FY2016.

No pro forma adjustments have been made to the historical audited financial statements.

Piston Machinery Ltd was incorporated on 5 May 2017 as a public company to enable the listing on the ASX. There are no actual historical consolidated financial results for the Company. On 22 May 2017, the Company completed the acquisition of 100% of the share capital of Piston Holding Ltd, an investment holding company incorporated in Hong Kong which was incorporated on 22 May 2017 and owns 100% of Piston Zhaoqing.
The Historical and Pro forma Statement of Financial Position presented in the Prospectus reflects a consolidation of Piston Zhaoqing that will comprise the Piston Machinery Group upon listing, and therefore assumes both the acquisition and listing occur.

Refer to Section 4.3 for a summary of the current corporate structure.

The historical statutory consolidated financial statements of Piston Zhaoqing for FY2014, FY2015 and FY2016 have been audited by Grant Thornton Audit Pty Ltd. A qualified audit opinion was issued in FY2014 and FY2015 due to the auditors not being able to observe the counting of the physical inventories at the beginning of FY2013, FY2014 and FY2015 or satisfy themselves concerning those inventory quantities by alternative means. The auditor was not able to express an opinion on the opening balance as at 1 January 2014, which impacted the FY2014 financial performance and cashflows and resulted in an audit qualification. Since opening inventories affect the determination of the results of operations, the auditors were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for FY2013, FY2014 and FY2015. A qualified audit opinion was also issued for FY2016 with respect to the opening balance of inventory (i.e. 1 January 2016), along with an emphasis of matter regarding the basis of accounting.

The Directors are responsible for the inclusion of all financial information in this Prospectus. Investors should note that historical financial performance is not a guide for future financial performance.

The Financial Information has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450: “Assurance Engagements involving Corporate Fundraising and/or Prospective Financial Information”, by Grant Thornton Corporate Finance Pty Limited whose Investigating Accountant’s Report on the Financial Information is contained in Section 8.

The information in this Section 7 should also be read in conjunction with the risk factors set out in Section 9 and other information contained in this Prospectus.

Non IFRS financial measure

Investors should be aware that certain financial data included in this Section 7 is “non IFRS financial information” under Regulatory Guide 230: "Disclosing non IFRS financial information" published by ASIC. The Company believes that this non IFRS financial information provides useful information to users in measuring the financial performance and conditions of Piston Machinery. As non IFRS measures are not defined by recognised standard setting bodies, they do not have a prescribed meaning. Therefore, the way in which Piston Machinery calculates these measures may be different to the way other companies calculate similarly titled measures. Investors are cautioned not to place undue reliance on any non IFRS financial information and ratios.

In particular the following non IFRS financial data is included:

(i) gross margin which means revenue less cost of goods sold;
(ii) EBITDA which means earnings before interest, taxation depreciation and amortisation;
(iii) EBIT which means earnings before interest and taxation;
(iv) capital expenditure includes investment in property, plant and equipment;
(v) NPBT which means net profit before tax; and
(vi) NPAT which means net profit after tax.

All amounts disclosed in this section are presented in Australian Dollars, unless otherwise noted, and are rounded to the nearest $'000.
7.3 Historical statement of profit or loss and other comprehensive income

The table below presents the summarised historical statutory consolidated statement of profit or loss and other comprehensive income for FY2014, FY2015 and FY2016.

<table>
<thead>
<tr>
<th>Description of key financial terms</th>
<th>FY2014 Audited</th>
<th>FY2015 Audited</th>
<th>FY2016 Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>45,033</td>
<td>49,365</td>
<td>53,386</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>(35,259)</td>
<td>(36,800)</td>
<td>(40,252)</td>
</tr>
<tr>
<td>Gross margin</td>
<td>9,774</td>
<td>12,565</td>
<td>13,134</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(3,834)</td>
<td>(4,548)</td>
<td>(4,113)</td>
</tr>
<tr>
<td>EBITDA (pre significant item)</td>
<td>5,940</td>
<td>8,016</td>
<td>9,022</td>
</tr>
<tr>
<td>IPO advisor fees (settled via shares)</td>
<td>-</td>
<td>-</td>
<td>(431)</td>
</tr>
<tr>
<td>EBITDA (post significant item)</td>
<td>5,940</td>
<td>8,016</td>
<td>8,591</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(1,284)</td>
<td>(1,778)</td>
<td>(1,721)</td>
</tr>
<tr>
<td>EBIT</td>
<td>4,656</td>
<td>6,238</td>
<td>6,870</td>
</tr>
<tr>
<td>Other non operating revenue</td>
<td>948</td>
<td>11</td>
<td>1,435</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(3,536)</td>
<td>(4,623)</td>
<td>(3,340)</td>
</tr>
<tr>
<td>NPBT</td>
<td>2,068</td>
<td>1,626</td>
<td>4,965</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(330)</td>
<td>(292)</td>
<td>(678)</td>
</tr>
<tr>
<td>NPAT</td>
<td>1,738</td>
<td>1,334</td>
<td>4,287</td>
</tr>
</tbody>
</table>

Description of key financial terms

Set out below is a description of the key financial terms used in the presentation of the historical statement of profit or loss and other comprehensive income:

(a) **Revenue**: refers to consideration received from the sale of products. All revenue is shown net of the amount of value added tax (VAT), at 17%.

(b) **Cost of goods sold**: refers to the cost incurred to manufacture its products, which includes the purchase of raw materials, direct labour, freight, overheads absorbed in the manufacturing process but specifically excludes the depreciation for the purpose of the disclosure in this financial information section.

(c) **Gross margin**: refers to the difference between revenue and COGS.

(d) **Operating expenses**: refers to additional expenses incurred during normal business operations. These include staff costs, R&D and administrative expenses.

(e) **IPO advisor fees (settled via shares)**: Eagle and Piston Zhaqing signed an IPO consulting agreement dated 8 August 2016 with a consulting fee of $1.5 million (RMB 7.5 million) to be paid in shares via the issue of 3,750,000 ordinary shares. The related expenses recognised in FY16 was $0.4 million, with a further amount capitalized in the issued capital.

(f) **Depreciation and amortisation**: refers to the depreciation of owned equipment, buildings, motor vehicles, office equipment and land use rights (refer to the accounting policies in Appendix 1 for the applicable depreciation rates).

(g) **Other non operating revenue**: non recurring government grants and investment income received.

(h) **Interest expense**: refers to the cost incurred to borrow funds from external financial institutions and related parties.

(i) **Income tax expense**: refers to the liability for income tax. Both Piston Zhaqing and Zhaqing Jingtong Machinery Co Ltd are both classified as high tech enterprises and are therefore subjected to an income tax rate of 15% and Anhui Piston Precision Machinery and Technology Co Ltd is subjected to an income tax rate of 25% in the People’s Republic of China.
7.4 Key operating metrics

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume ('000) units</td>
<td>70,447</td>
<td>64,935</td>
<td>75,322</td>
</tr>
<tr>
<td>Average price per unit ($)</td>
<td>$0.64</td>
<td>$0.76</td>
<td>$0.71</td>
</tr>
<tr>
<td>Year on year revenue growth</td>
<td>n/a</td>
<td>9.6%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Year on year sales volume growth</td>
<td>n/a</td>
<td>(7.8%)</td>
<td>16%</td>
</tr>
<tr>
<td>Gross margin %</td>
<td>21.7%</td>
<td>25.5%</td>
<td>24.6%</td>
</tr>
<tr>
<td>Average no of FTEs</td>
<td>520</td>
<td>522</td>
<td>501</td>
</tr>
<tr>
<td>Operating expenses as a % of revenue</td>
<td>8.5%</td>
<td>9.2%</td>
<td>7.7%</td>
</tr>
<tr>
<td>EBITDA margin % (pre significant item)</td>
<td>13.2%</td>
<td>16.2%</td>
<td>16.9%</td>
</tr>
<tr>
<td>EBITDA margin % (post significant item)</td>
<td>13.2%</td>
<td>16.2%</td>
<td>16.1%</td>
</tr>
<tr>
<td>EBIT margin %</td>
<td>10.3%</td>
<td>12.6%</td>
<td>12.9%</td>
</tr>
</tbody>
</table>

1. Revenue / sales volume
2. Gross margin / revenue
3. EBITDA (pre significant item) / revenue
4. EBITDA (post significant item) / revenue
5. EBIT / revenue

CAGR % FY2014 - FY2016

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>8.9%</td>
<td>8.1%</td>
<td>16%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>15.9%</td>
<td>16.2%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>3.6%</td>
<td>7.7%</td>
<td>16.2%</td>
</tr>
<tr>
<td>EBITDA (pre significant item)</td>
<td>23.2%</td>
<td>16.2%</td>
<td>16.1%</td>
</tr>
<tr>
<td>EBITDA (post significant item)</td>
<td>20.3%</td>
<td>16.2%</td>
<td>16.1%</td>
</tr>
<tr>
<td>EBIT</td>
<td>21.5%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NPBT</td>
<td>55.0%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NPAT</td>
<td>57.1%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

7.5 Management discussion and analysis of the historical financial performance and key operating metrics

(a) Revenue

Piston Zhaoqing generates revenue through the manufacturing and distribution of air conditioning compressor spare parts, i.e. piston, counterweights and castings in mainland China.

Revenue increased in FY2015, mainly driven by the positive FX (RMB to AUD) impact, which was offset by the decrease in sales volumes as a result of a weaker air conditioning after market. FY2016 revenue increased in line with incremental sales volumes increasing by 10.4 million units due to the recovery of the domestic Chinese air conditioning market, despite a decline in the average price due to competitive pricing.

(Notes: To illustrate the impact of FX movements on revenue, the opposite bridge has been calculated on the following basis: a) revenue has been translated from RMB to AUD at the average FY2016 rate of $0.2027; and b) FX reflects the difference between revenue at the average FY2016 rate and the actual average FX rate in each financial year.)
Historically, the majority of revenue has been generated through the sale of pistons and castings, accounting for over 65% of total revenue. FY2016 product volumes increased by 16%, compared with that in FY2015, due to the increased demand by the major customers, Zhuhai Landa Group and Panasonic Wanbao as a result of the domestic Chinese air conditioning market’s recovery. Also Piston Zhaoqing acquired new customers, i.e. Rechi, Chigo, Wuxi Jin Mei Ling, Guangzhou Jin Ling and Guangzhou Jing Han Motor Vehicle in FY2015 and FY2016, which increased the demand for pistons and casting as well.

Fluctuations in the average price for various product lines were driven by market conditions, such as demand for products, product mix and competitor pricing.

Revenue has historically been impacted by seasonality trends driven by the impact of repairs and maintenance (R&M) programs of the specific air conditioning manufacturers during July to September every year, which is further reflected in the revenue chart below. This represents a period of diminished activity in these specific periods and is systemic across the industry.

Piston Zhaoqing has significant customer concentration with revenue generated from the top two customers (GMCC Group and Zhuhai Landa Group) amounting to over 70% of total revenue over the Historical Period. Customer concentration for the above two customers has declined from 86% in FY2014 to 72% in FY2016 due to the acquisition of new customers in FY2015 and FY2016, including Rechi Group, Wuxi Jin Mei Ling, Guangzhou Jin Ling and Guangzhou Jing Han Motor Vehicle in FY2015 and Chigo (in FY2016).
(b) **Cost of Goods Sold**

Cost of goods sold comprises raw materials, direct labour and overheads absorbed in the manufacturing process. Raw materials (direct and indirect) have historically represented on average 78% of the cost of producing each product over the Historical Period and specifically excludes any depreciation expense absorbed as part of the production process. If depreciation was included the raw materials would represent 76% of the cost of production.

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct material</td>
<td>66.5%</td>
<td>67.6%</td>
<td>62.5%</td>
</tr>
<tr>
<td>Direct labour</td>
<td>4.3%</td>
<td>4.9%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Indirect material</td>
<td>12.6%</td>
<td>11.3%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Utilities</td>
<td>11.9%</td>
<td>12.1%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Freight</td>
<td>2.7%</td>
<td>2.2%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Others</td>
<td>2.0%</td>
<td>1.9%</td>
<td>2.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
<tr>
<td>Direct FTEs</td>
<td>419</td>
<td>417</td>
<td>411</td>
</tr>
</tbody>
</table>

The overall steel and iron price decreased by 20% in FY2015, and recovered in FY2016. Despite the increase in the underlying steel price, Piston Zhaoqing shifted to a different type of steel with a lower purchase price than screw thread steel in FY2016. This resulted in a decline in the underlying unit cost.

Direct full time employees (FTEs) who work in the production facility have decreased from 419 in FY2014 to 411 in FY2016 due to the factory automation program implemented in 2015.

(c) **Gross Margin**

The gross margin increased from 21.7% in FY2014 to 25.5% in FY2015 and reduced to 24.6% in FY2016, mainly due to the decreased unit price of piston and counterweights as a result of the competitive landscape. This was offset by:

(i) the declining steel purchase price;
(ii) use of cheaper steel to replace the screw thread steel; and
(iii) the lower unit fixed cost absorbed by larger production volumes as a result of automating the manufacturing facilities.

<table>
<thead>
<tr>
<th></th>
<th>FY2014 (GM)</th>
<th>FY2015 (GM)</th>
<th>FY2016 (GM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piston</td>
<td>25.9%</td>
<td>25.6%</td>
<td>19.6%</td>
</tr>
<tr>
<td>Casting</td>
<td>23.7%</td>
<td>34.3%</td>
<td>34.7%</td>
</tr>
<tr>
<td>Processing</td>
<td>20.9%</td>
<td>28.8%</td>
<td>27.2%</td>
</tr>
<tr>
<td>Counterweights</td>
<td>6.6%</td>
<td>6.9%</td>
<td>16.6%</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td><strong>21.7%</strong></td>
<td><strong>25.5%</strong></td>
<td><strong>24.6%</strong></td>
</tr>
</tbody>
</table>

**Monthly gross margin and LTM gross margin %**

[Graph showing monthly gross margin and LTM gross margin % for FY2014 to FY2016]
(d) **Operating Expenses**

Operating expenses primarily consist of R&D, employees’ expenditure and other miscellaneous expenses, which have been summarised below.

<table>
<thead>
<tr>
<th></th>
<th>FY2014 ($’000)</th>
<th>%</th>
<th>FY2015 ($’000)</th>
<th>%</th>
<th>FY2016 ($’000)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D expenses</td>
<td>1,593</td>
<td>41.5%</td>
<td>1,538</td>
<td>33.8%</td>
<td>1,936</td>
<td>47.1%</td>
</tr>
<tr>
<td>Staff costs</td>
<td>933</td>
<td>24.3%</td>
<td>1,356</td>
<td>29.8%</td>
<td>1,265</td>
<td>30.8%</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>476</td>
<td>12.4%</td>
<td>422</td>
<td>9.3%</td>
<td>296</td>
<td>7.2%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>250</td>
<td>6.5%</td>
<td>319</td>
<td>7.0%</td>
<td>191</td>
<td>4.6%</td>
</tr>
<tr>
<td>Other taxes</td>
<td>181</td>
<td>4.7%</td>
<td>231</td>
<td>5.1%</td>
<td>144</td>
<td>3.5%</td>
</tr>
<tr>
<td>Other expenses</td>
<td>401</td>
<td>10.6%</td>
<td>682</td>
<td>15.0%</td>
<td>281</td>
<td>6.8%</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>3,834</td>
<td>100.0%</td>
<td>4,548</td>
<td>100.0%</td>
<td>4,113</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY2015 ($’000)</th>
<th>%</th>
<th>FY2016 ($’000)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D expenses</td>
<td>1,538</td>
<td>33.8%</td>
<td>1,936</td>
<td>47.1%</td>
</tr>
<tr>
<td>Staff costs</td>
<td>1,356</td>
<td>29.8%</td>
<td>1,265</td>
<td>30.8%</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>422</td>
<td>9.3%</td>
<td>296</td>
<td>7.2%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>319</td>
<td>7.0%</td>
<td>191</td>
<td>4.6%</td>
</tr>
<tr>
<td>Other taxes</td>
<td>231</td>
<td>5.1%</td>
<td>144</td>
<td>3.5%</td>
</tr>
<tr>
<td>Other expenses</td>
<td>682</td>
<td>15.0%</td>
<td>281</td>
<td>6.8%</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>4,548</td>
<td>100.0%</td>
<td>4,113</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY2014 ($’000)</th>
<th>%</th>
<th>FY2015 ($’000)</th>
<th>%</th>
<th>FY2016 ($’000)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% of revenues</th>
<th>FY2014</th>
<th>%</th>
<th>FY2015</th>
<th>%</th>
<th>FY2016</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D expenses</td>
<td>3.5%</td>
<td></td>
<td>3.1%</td>
<td></td>
<td>3.6%</td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>2.1%</td>
<td></td>
<td>2.7%</td>
<td></td>
<td>2.4%</td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>1.1%</td>
<td></td>
<td>0.9%</td>
<td></td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>0.6%</td>
<td></td>
<td>0.6%</td>
<td></td>
<td>0.4%</td>
<td></td>
</tr>
<tr>
<td>Other taxes</td>
<td>0.4%</td>
<td></td>
<td>0.5%</td>
<td></td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>Indirect FTEs</td>
<td>101</td>
<td></td>
<td>105</td>
<td></td>
<td>90</td>
<td></td>
</tr>
</tbody>
</table>

R&D expenses comprise the material and utility costs for the R&D division, which comprised 49 FTEs in FY2016. Piston Zhaoqing had around 15 R&D projects per annum over the Historical Period, focusing on existing product upgrades and new products.

Fluctuation in staff costs was mainly due to the higher compensation paid to new R&D employees and the sales employees in FY2015, whilst the decline was due to the reduction of 19 FTEs due to the automated production in FY2016.

Employee benefits largely included canteen expenses, dormitories and other benefits for employees.

Vehicles represent the gasoline and road charges for the shuttle bus and cars used by management.

Taxes mainly comprise stamp duty, property tax and other surcharges charged by the local tax bureau.

Other expenses increased to $0.7 million in FY2015, mainly due to a 6 month consulting project subject to “the Corporation valuation improvement” provided by Shengjing with a consulting fee of $0.2 million.
7.6   Historical and pro forma consolidated statement of financial positions at 31 December 2016

The table below sets out the unaudited historical statement of financial position of Piston Machinery Limited, the subsequent events and pro forma adjustments that have been made to it (further described in Section 7.6(a)) and the pro forma consolidated statement of financial position as at 31 December 2016.

The pro forma statement of financial position is provided for illustrative purposes only and is not represented as being necessarily indicative of Piston Machinery Ltd's view of its future financial position.

<table>
<thead>
<tr>
<th>As at 31 December 2016</th>
<th>Note</th>
<th>Unaudited</th>
<th>Minimum Offer Pro forma ($’000)</th>
<th>Maximum Offer Pro forma ($’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>7.6.b</td>
<td>-</td>
<td>20,579</td>
<td>25,106</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>-</td>
<td>-</td>
<td>24,092</td>
<td>24,092</td>
</tr>
<tr>
<td>Inventory</td>
<td>-</td>
<td>-</td>
<td>15,219</td>
<td>15,219</td>
</tr>
<tr>
<td>Other current assets</td>
<td>-</td>
<td>-</td>
<td>4,254</td>
<td>4,254</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT ASSETS</strong></td>
<td>-</td>
<td>-</td>
<td>64,144</td>
<td>68,671</td>
</tr>
<tr>
<td><strong>NON CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>-</td>
<td>-</td>
<td>25,995</td>
<td>25,995</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>-</td>
<td>-</td>
<td>833</td>
<td>810</td>
</tr>
<tr>
<td><strong>TOTAL NON CURRENT ASSETS</strong></td>
<td>-</td>
<td>-</td>
<td>26,828</td>
<td>26,805</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>-</td>
<td>-</td>
<td>90,972</td>
<td>95,476</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>-</td>
<td>-</td>
<td>17,149</td>
<td>17,149</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>-</td>
<td>-</td>
<td>21,974</td>
<td>21,974</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>-</td>
<td>-</td>
<td>739</td>
<td>739</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT LIABILITIES</strong></td>
<td>-</td>
<td>-</td>
<td>39,862</td>
<td>39,862</td>
</tr>
<tr>
<td><strong>NON CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>-</td>
<td>-</td>
<td>20,484</td>
<td>20,484</td>
</tr>
<tr>
<td><strong>TOTAL NON-CURRENT LIABILITIES</strong></td>
<td>-</td>
<td>-</td>
<td>20,484</td>
<td>20,484</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>-</td>
<td>-</td>
<td>60,346</td>
<td>60,346</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td>-</td>
<td>-</td>
<td>30,626</td>
<td>35,130</td>
</tr>
<tr>
<td><strong>SHAREHOLDERS EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued capital</td>
<td>7.6.c</td>
<td>-</td>
<td>28,410</td>
<td>32,860</td>
</tr>
<tr>
<td>Foreign currency translation reserve</td>
<td>-</td>
<td>-</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>7.6.e</td>
<td>-</td>
<td>2,205</td>
<td>2,259</td>
</tr>
<tr>
<td><strong>TOTAL SHAREHOLDERS EQUITY</strong></td>
<td>-</td>
<td>-</td>
<td>30,626</td>
<td>35,130</td>
</tr>
</tbody>
</table>

(a) Subsequent events and pro forma adjustments

Subsequent events and the restructure accounting undertaken

1. In January 2017, Piston Zhaoqing received a $1.8 million (RMB9.1 million) pre IPO investment from an individual shareholder, Bai Jinghong. This debt was repaid on 30 August 2017 through the issue of shares in the company to Aoton Trading Co. Ltd.

2. Piston Holdings Ltd was incorporated on 22 May 2017 in Hong Kong with its sole shareholder being the Company. On 22 May 2017, the Company paid HK$10,000 for the allotment of 10,000 ordinary shares in the capital of Piston Holdings Ltd. On 6 June 2017, Piston Holdings Ltd acquired 100% of the share capital of Piston Zhaoqing.

The transaction is one referred to in AASB 3: "Business Combinations" as a common control transaction, as ultimate control was maintained by the same party prior and subsequent to the transaction. Therefore, net assets of the acquired business were recognised at their previous carrying amount, with no corresponding value being recognised to reflect the value of the ordinary shares issued to effect the transaction. The audited financial position of Piston Zhaoqing at 31 December 2016 is set out below, but before the subsequent events illustrated above:
<table>
<thead>
<tr>
<th>In AUD</th>
<th>As at 31 December 2016 ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>5,641</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>24,092</td>
</tr>
<tr>
<td>Inventory</td>
<td>15,219</td>
</tr>
<tr>
<td>Other current assets</td>
<td>4,875</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT ASSETS</strong></td>
<td>49,827</td>
</tr>
<tr>
<td><strong>NON CURRENT ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>25,469</td>
</tr>
<tr>
<td>Land use rights</td>
<td>526</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>141</td>
</tr>
<tr>
<td><strong>TOTAL NON CURRENT ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>26,136</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>19,434</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>21,974</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>739</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT LIABILITIES</strong></td>
<td>42,147</td>
</tr>
<tr>
<td><strong>NON CURRENT LIABILITIES</strong></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>20,484</td>
</tr>
<tr>
<td><strong>TOTAL NON-CURRENT LIABILITIES</strong></td>
<td>20,484</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>62,631</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td>13,332</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td></td>
</tr>
<tr>
<td>Issued capital</td>
<td>9,215</td>
</tr>
<tr>
<td>Reserves</td>
<td>644</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,473</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td>13,332</td>
</tr>
</tbody>
</table>

At the date of Prospectus, Piston Machinery has issued 112,500,000 ordinary shares, of which 102,100,000 ordinary shares were issued to GdWill Trading Co., Ltd (held by Mr. Jia Pingfan and Mr. Wang Lei), Aoton Trading Co., Ltd (held by Ms. Bai Jinhong) and Honoas Trading Co., Ltd (held by Mr. Zhang Xin, Mr. Yuan Xianjun and Mr. Xu Yixun) and the rest of the shares issued to the 10 seed investors detailed in Section 10.6 and Eagle IG Hong Kong Limited detailed in Section 10.5.

3. The conversion of the individual pre IPO funding which occurred in FY2016 to issued capital with a fair value of $2.6 million and via the issue of 6,650,000 ordinary shares;

4. The payment of the lead managers fees with a fair value of $1.1 million which will be paid in ordinary shares via the issue of 3,750,000 ordinary shares, regarded as a non cash offer cost, of which $1.5 million will be expensed and the remaining cost capitalised;

**Pro forma adjustments**

The following transactions and events contemplated in this Prospectus which are to take place on or before the completion of the Offer, referred to as the pro forma adjustments, are presented as if they, together with the Offer, had occurred on or before 31 December 2016 and are set out below.

With the exception of the pro forma transactions noted below no material transactions have occurred between 31 December 2016 and the date of this Prospectus which the Directors consider require disclosure.

**Offer**

5. The issue of between 37,500,000 shares at $0.4 each amounting to $15 million in relation to the minimum Offer and up to 50,000,000 shares at $0.4 each amounting to $20 million in relation to the maximum Offer;
6. Total cash offer costs (inclusive of GST/VAT where applicable) in relation to the Minimum Subscription amount to $2,661,000 and for the Maximum Subscription amount to $3,135,000. An amount of $1,396,000 million has been capitalised under the minimum offer and $1,859,000 million is expected to be capitalised under the maximum offer, the remaining costs have been expensed. Any non recoverable GST or VAT has been expensed as part of the Offer. Approximately $420,000 of the offer costs were paid prior to 31 December 2016; and

7. Recognition of a DTA representing the tax effect of the Australian specific Offer costs.

(b) **Pro forma cash and cash equivalents**

<table>
<thead>
<tr>
<th>Unaudited cash and cash equivalents at 31 December 2016</th>
<th>Pro forma adjustment</th>
<th>Minimum Pro forma $’000</th>
<th>Maximum Pro forma $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre IPO investment funding</td>
<td>7.6.a.1</td>
<td>1,817</td>
<td>1,817</td>
</tr>
<tr>
<td>Cash recognised as part of the restructure</td>
<td>7.6.a.2</td>
<td>5,641</td>
<td>5,641</td>
</tr>
<tr>
<td>Net impact of the debt to equity conversion for the individual shareholders</td>
<td>7.6.a.3</td>
<td>365</td>
<td>365</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>7,823</td>
<td>7,823</td>
</tr>
<tr>
<td>Pro forma transactions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from shares issued under the Offer</td>
<td>7.6.a.5</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>IPO costs in relation to the Offer remaining to be paid</td>
<td>7.6.a.6</td>
<td>(2,244)</td>
<td>(2,717)</td>
</tr>
<tr>
<td><strong>Pro forma cash and cash equivalents</strong></td>
<td></td>
<td>20,579</td>
<td>25,106</td>
</tr>
</tbody>
</table>

(c) **Pro forma issued capital**

<table>
<thead>
<tr>
<th>Unaudited issued capital at 31 December 2016</th>
<th>Pro forma adjustment</th>
<th>Minimum Pro forma $’000</th>
<th>Maximum Pro forma $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre IPO investment funding</td>
<td>7.6.a.1</td>
<td>1,817</td>
<td>1,817</td>
</tr>
<tr>
<td>Issued capital recognised as part of the restructure</td>
<td>7.6.a.2</td>
<td>9,215</td>
<td>9,215</td>
</tr>
<tr>
<td>Debt to equity conversion for the individual shareholders</td>
<td>7.6.a.3</td>
<td>2,649</td>
<td>2,649</td>
</tr>
<tr>
<td>Fair value of shares issued to the lead manager</td>
<td>7.6.a.4</td>
<td>1,125</td>
<td>1,038</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>14,806</td>
<td>14,719</td>
</tr>
<tr>
<td>Pro forma transactions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of shares issued under the Offer</td>
<td>7.6.a.5</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Offer costs capitalised as a consequence of the Offer</td>
<td>7.6.a.6</td>
<td>(1,396)</td>
<td>(1,859)</td>
</tr>
<tr>
<td><strong>Pro forma issued capital</strong></td>
<td></td>
<td>28,410</td>
<td>32,860</td>
</tr>
</tbody>
</table>

(d) **Pro forma number of shares issued**

<table>
<thead>
<tr>
<th>Unaudited number of shares at 31 December 2016</th>
<th>Pro forma adjustment</th>
<th>Minimum Pro forma</th>
<th>Maximum Pro forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares issued as part of the restructure</td>
<td>7.6.a.1&amp;2</td>
<td>102,100</td>
<td>102,100</td>
</tr>
<tr>
<td>Debt to equity conversion for the individual shareholders</td>
<td>7.6.a.3</td>
<td>6,650</td>
<td>6,650</td>
</tr>
<tr>
<td>Shares issued to the lead manager</td>
<td>7.6.a.4</td>
<td>3,750</td>
<td>3,750</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>112,500</td>
<td>112,500</td>
</tr>
<tr>
<td>Pro forma transaction:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares issued under the Offer</td>
<td>7.6.a.5</td>
<td>37,500</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Pro forma number of shares issued</strong></td>
<td></td>
<td>150,000</td>
<td>162,500</td>
</tr>
</tbody>
</table>
(e) Pro forma retained earnings

<table>
<thead>
<tr>
<th></th>
<th>Pro forma adjustment</th>
<th>Minimum Pro forma $’000</th>
<th>Maximum Pro forma $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unaudited retained earnings at 31 December 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsequent events:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings transferred as part of the restructure</td>
<td>7.6.a.2</td>
<td>3,473</td>
<td>3,473</td>
</tr>
<tr>
<td>Fair value of shares issued to the lead manager</td>
<td>7.6.a.4</td>
<td>(693)</td>
<td>(607)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pro forma transactions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IPO costs expensed in relation to the Offer</td>
<td>7.6.a.6</td>
<td>(1,266)</td>
<td>(1,276)</td>
</tr>
<tr>
<td>Tax impact of the offer costs</td>
<td>7.6.a.7</td>
<td>691</td>
<td>669</td>
</tr>
<tr>
<td>Pro forma retained earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,205</td>
<td>2,259</td>
</tr>
</tbody>
</table>

(f) Equity and Indebtedness

The table below sets out the equity and indebtedness and capitalisation of the Company as at 31 December 2016, before and following completion of the Offer:

Net indebtedness and equity before and after completion of the Offer

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2016</th>
<th>Minimum Pro forma $’000</th>
<th>Maximum Pro forma $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>-</td>
<td>(20,579)</td>
<td>(25,106)</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>-</td>
<td>42,459</td>
<td>42,459</td>
</tr>
<tr>
<td>Related party debt</td>
<td>-</td>
<td>3,313</td>
<td>3,313</td>
</tr>
<tr>
<td><strong>Total indebtedness</strong></td>
<td>-</td>
<td><strong>25,193</strong></td>
<td><strong>20,666</strong></td>
</tr>
<tr>
<td>Share capital</td>
<td>-</td>
<td>28,410</td>
<td>32,860</td>
</tr>
<tr>
<td>Foreign currency translation reserve</td>
<td>-</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>-</td>
<td>2,205</td>
<td>2,259</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>-</td>
<td><strong>30,626</strong></td>
<td><strong>35,130</strong></td>
</tr>
<tr>
<td><strong>Total equity and indebtedness</strong></td>
<td>-</td>
<td><strong>55,819</strong></td>
<td><strong>55,769</strong></td>
</tr>
</tbody>
</table>

Contingent Liabilities

The Group has recorded unpaid current tax liabilities of $738,824 and an unpaid Value Added Tax (VAT) liability of $2,746,253 as at 31 December 2016. Local tax authorities in the PRC have the authority and power to impose interest and penalties on unpaid tax amounts. Interest and penalties can be levied at up to 500% of the outstanding tax debt. In the case that local tax authorities were to impose interest and or penalties on outstanding tax debt, the Group expects it would be reimbursed for such interest and or penalties by Mr Pingfan Jia, the major shareholder and director of the Company. Mr Pingfan Jia has provided an indemnity to the Company in this respect.

Description of the financing facilities

Cash and cash equivalents at 31 December 2016 are Chinese denominated equivalent balances $5.6 million (RMB 28.3 million) and are held with reputable financial institutions in the People’s Republic of China current accounts. As at 31 December 2016, the restricted cash and cash equivalents was $4 million due to the one year deposit (which expires in November 2017) to Guangdong Nanyue Bank relating to the short term loan of $4 million.

The Company’s debt asset ratio was 82.5% as at 31 December 2016 and the interest coverage ratio was 2.1 for FY2016.

The RMB is not freely convertible into foreign currencies. Under the PRC’s foreign exchange control regulations and administration of settlement, sales and payment of foreign exchange regulations, the group needs an approval for any transaction greater than US$5 million and also faces tighter limits on amounts it can transfer in and out of the bank accounts.

Following Completion of the Offer, the Company’s principal sources of funds will be the proceeds from the Offer and cash flow from operations. The Company expects that it will have sufficient cash flow from operations to meet its operational requirements and business needs.
As at the date of this Prospectus, $39.3 million (RMB204.5 million) of financing facilities will be in place. The Company has agreed in principle with Guangdong Nanyue Bank to restructure the total bank loans as follows:

- $1.9 million (RMB10 million) due in November 2017, will be converted to a 1 year working capital loan after repayment;
- $19.2 million (RMB100 million) due in May 2018 is to be repaid and renewed with four installments one month before the expiry date;
- $13.4 million (RMB70 million) due in November and December 2017 and May 2018, will be converted to a 1 year working capital loans after repayment; and
- $3.8 million (RMB20 million) due in November 2017 will be repaid by the bank deposit.

In May 2017, the Zhaoqing Government issued a "Notice" in relation to providing bridging facilities to help small and medium enterprises bridge the bank loans which are in the process of being renewed. Each bridging facility is expected to be within a limit of $3,842,000 (RMB20 million) and the period to be no more than 10 days. The daily interest rate of the bridging facility is 0.02%~0.03% p.a. for the first two facilities and 0.04%~0.045% p.a. after the first two facilities. The Group has historically met the criteria for these bridging facilities to be provided and the Company expects going forward that they will continue to be able to access these bridging as and when required, to facilitate renewal of debt facilities.

(g) Management discussion and analysis of the historical statement of cash flows

The table below presents the summarised historical statutory consolidated statement of cash flows for FY2014, FY2015, and FY2016.

<table>
<thead>
<tr>
<th>$'000</th>
<th>December year end</th>
<th>FY2014 Audited</th>
<th>FY2015 Audited</th>
<th>FY2016 Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH FLOWS FROM OPERATING ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA (pre significant item)</td>
<td>5,940</td>
<td>8,016</td>
<td>9,022</td>
<td></td>
</tr>
<tr>
<td>Government grants</td>
<td>948</td>
<td>11</td>
<td>420</td>
<td></td>
</tr>
<tr>
<td>Change in working capital investment</td>
<td>(4,493)</td>
<td>(4,445)</td>
<td>(4,193)</td>
<td></td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(132)</td>
<td>(320)</td>
<td>(217)</td>
<td></td>
</tr>
<tr>
<td>Change in other assets and liabilities</td>
<td>1,394</td>
<td>976</td>
<td>1,457</td>
<td></td>
</tr>
<tr>
<td>Net cash flow from operating activities</td>
<td>3,657</td>
<td>4,238</td>
<td>6,489</td>
<td></td>
</tr>
<tr>
<td>CASH FLOWS FROM INVESTING ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(2,132)</td>
<td>(2,464)</td>
<td>(1,415)</td>
<td></td>
</tr>
<tr>
<td>Purchase and sale of available for sale financial assets</td>
<td>-</td>
<td>(19,197)</td>
<td>21,583</td>
<td></td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>(2,132)</td>
<td>(21,661)</td>
<td>20,168</td>
<td></td>
</tr>
<tr>
<td>CASH FLOWS FROM FINANCING ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds/(repayment) of borrowings including related parties</td>
<td>786</td>
<td>36,569</td>
<td>(43,277)</td>
<td></td>
</tr>
<tr>
<td>Finance costs</td>
<td>(3,536)</td>
<td>(4,623)</td>
<td>(3,340)</td>
<td></td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>(2,750)</td>
<td>31,946</td>
<td>(46,617)</td>
<td></td>
</tr>
<tr>
<td>Net (decrease) / increase in cash held</td>
<td>(1,225)</td>
<td>14,523</td>
<td>(19,960)</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the financial year</td>
<td>12,069</td>
<td>11,705</td>
<td>26,753</td>
<td></td>
</tr>
<tr>
<td>Effects of exchange rates on translation from RMB to AUD</td>
<td>861</td>
<td>525</td>
<td>(1,152)</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the financial year</td>
<td>11,705</td>
<td>26,753</td>
<td>5,641</td>
<td></td>
</tr>
<tr>
<td>EBITDA to operating cash flow conversion ratio (and prior to tax being paid)</td>
<td>63.8%</td>
<td>56.9%</td>
<td>74.3%</td>
<td></td>
</tr>
<tr>
<td>Trade debtor collections days</td>
<td>101</td>
<td>112</td>
<td>132</td>
<td></td>
</tr>
<tr>
<td>Inventory turnover days</td>
<td>165</td>
<td>195</td>
<td>159</td>
<td></td>
</tr>
<tr>
<td>Trade creditor payment days</td>
<td>(78)</td>
<td>(68)</td>
<td>(54)</td>
<td></td>
</tr>
</tbody>
</table>
(h) **Operating cash flows**

Piston Zhaoqing has historically generated positive operating cash flows, which have increased from $3.7 million in FY2014 to $6.5 million in FY2016. This growth is largely correlated with the continued improvement in EBITDA as well as working capital investment swings.

Movements in working capital reflect changes in trade and other receivables, inventory and trade and other payables. The negative movements primarily reflects the increased revenue and slow collection of the trade receivables from major customers as a result of market competition and the quicker payment or advance to the suppliers given the demand and supply requirements of the broader PRC market.

(i) **Investing cash flows**

Piston Zhaoqing has invested heavily in automating the factory since 2014 to improve production efficiency. As at 31 December 2016, Piston Zhaoqing had buildings and machinery with a carrying value of $8.2 million and $17.1 million, respectively. The capital expenditure spent over the Historical Period amounted to $3.4 million in FY2014, $2.2 million in FY2015 and $1 million in FY2016.

In FY2015, Piston Jingtong invested in a financial asset of $19 million, which has been redeemed in FY2016 with attaching investment income of $1 million.

(j) **Financing cash flows**

In FY2016, the Company has received $2.3 million in loans, of which $1.2 million was converted to equity on 30 August 2017 and the remaining has been repaid in March 2017.

Piston Zhaoqing net proceeds from borrowings increased from $0.8 million in FY2014 to $36.6 million in FY2015. The increase in FY2015 was primarily driven by:

- Financing related notes payable amounting to $38.3 million issued to Guangzhou Qiangsheng;
- Repayment of short term and long term bank loans amounting to $49 million to financial institutions;
- Proceeds from borrowings amounting to $41 million from banks; and
- Financial funding from other non related parties and shareholders or high management for temporary working capital requirement or repayment of the loans.

The above note payables and temporary financial funding has been settled via the sales of the financial investment and proceeds from bank borrowings in FY2016.
INVESTIGATING ACCOUNTANT’S REPORT
Piston Machinery Ltd  
c/o AGC Capital Pty Ltd  
Suite 23.05, One International Towers Sydney  
100 Barangaroo Avenue  
Sydney, NSW, 2000  

4 September 2017

Dear Directors,

INDEPENDENT LIMITED ASSURANCE REPORT AND FINANCIAL SERVICES GUIDE

Introduction

We have been engaged by Piston Machinery Limited ("Piston Machinery", or the "Company") to report on the Historical and Pro Forma Financial Information of the Company for inclusion in a Prospectus (the "Prospectus") to be dated on or about 4 September 2017 to be issued by Piston Machinery in respect of the initial public offering of fully paid ordinary shares in the Company ("the Offer") and admission to the Australian Securities Exchange.

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") holds an appropriate Australian Financial Services Licence (AFS Licence Number 247140) under the Corporations Act 2001 for the issue of this report. This report is both an Independent Limited Assurance Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Capitalised terms used in this report have the same meaning as defined in the glossary of the Prospectus.

Scope of this Report

You have requested Grant Thornton Corporate Finance to review the following Historical and Pro Forma Financial Information included in the Prospectus.

The Historical and Pro Forma Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures required and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in Australia in accordance with the Corporations Act 2001.

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**Historical and Pro Forma Financial Information**

The Historical and Pro Forma Financial Information of Piston Machinery, as set out in the Prospectus comprises:

- The historical statutory consolidated statement of profit or loss and other comprehensive income for Zhaoqing Piston Machinery Co. Ltd for the 12 months ended 31 December 2014 (“FY2014”), the 12 months ended 31 December 2015 (“FY2015”), and the 12 months ended 31 December 2016 (“FY2016”);

- The historical statutory consolidated statement of cash flows for Zhaoqing Piston Machinery Co. Ltd for FY2014, FY2015 and FY2016;

- The unaudited historical statement of financial position for Piston Machinery Ltd as at 31 December 2016; and

- The historical pro forma consolidated statement of financial position of Piston Machinery Ltd as at 31 December 2016.

(Hereafter the “Historical and Pro Forma Financial Information”).

The Historical Financial Information of Zhaoqing Piston Machinery Co. Ltd has been extracted from the historical statutory consolidated audited financial statements for FY2014, FY2015 and FY2016. No pro forma adjustments have been made to the historical audited statutory financial statements.

The Historical Financial Information of Zhaoqing Piston Machinery Co. Ltd has been audited by Grant Thornton Audit Pty Ltd. A qualified audit opinion was issued in FY2014 and FY2015 due to the auditors not being able to observe the counting of the physical inventories at the beginning of FY2013, FY2014 and FY2015 or satisfy themselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, the auditors were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for FY2013, FY2014 and FY2015. The auditor was not able to express an opinion on the opening balance as at 1 January 2014, which also impacted the FY2014 financial performance and cash flows and resulted in an audit qualification. A qualified audit opinion was issued for FY2016 with respect to the opening balances of inventory (i.e. 1 January 2016), along with an emphasis of matter regarding the basis of accounting.
Piston Machinery Ltd was incorporated on 5 May 2017 as a public company to enable the listing on the ASX. There are no actual historical consolidated financial results for the Company. Piston Holdings Ltd was incorporated on 22 May 2017 for the purposes of being the Hong Kong holding company of Zhaoqing Piston Machinery Co. Ltd. At the date of this prospectus Piston Holding was completed the acquisition of 100% of the share capital of Zhaoqing Piston Machinery Co. Ltd for a cash consideration of RMB10,000. The Historical and Pro Forma Financial Information presented in the Prospectus reflects a consolidation of the Zhaoqing Piston Machinery Co. Ltd group that will comprise the Piston Machinery Group upon listing, and therefore assumes both the acquisition and listing occur.

The historical pro forma consolidated statement of financial position as at 31 December 2016 assumes completion of the proposed transactions outlined in Section 7.6.a of the “Financial Information” section which includes the Offer and the events occurring subsequent to 31 December 2016 (the “Pro Forma Transactions”) as though they had occurred on that date.

The stated basis of preparation is the recognition and measurements principles contained in the International Financial Reporting Standards (“IFRS”) and Piston Machinery’s adopted accounting principles applied to the Historical and Pro Forma Financial Information.

This report has been prepared for inclusion in the Prospectus. Grant Thornton Corporate Finance disclaim any assumption of responsibility for any reliance on this report or on the Financial Information to which this report relates for any purpose other than the purposes for which it was prepared. This report should be read in conjunction with the Prospectus.

Directors’ Responsibility

The Directors of Piston Machinery are responsible for the preparation and presentation of the Historical and Pro Forma Financial Information. The Directors are also responsible for the determination of the pro forma transactions set out in Section 7.6.a of the “Financial Information” section and the basis of preparation of the Historical and Pro Forma Financial Information.

This responsibility also includes compliance with applicable laws and regulations and for such internal controls as the Directors determine necessary to enable the preparation of the Historical and Pro Forma Financial Information that are free from material misstatement.
Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Historical and Pro Forma Financial Information based on the procedures performed and evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3420: “Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information” and ASAE 3450: “Assurance Engagements involving Corporate Fundraisings and/ or Prospective Historical Pro Forma Financial Information”. Our procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures applied to the accounting records in support of the Historical and Pro Forma Financial Information.

These procedures are substantially less in scope than an audit conducted in accordance with Australian Auditing Standards, and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical and Pro Forma Financial Information.

Our engagement did not involve updating or re issuing any previously issued audit reports on any Historical and Pro Forma Financial Information used as a source of the Historical and Pro Forma Financial Information.

Conclusion

Historical and Pro Forma Financial Information

Based on our independent review, which is not an audit, nothing has come to our attention which causes us to believe that the Historical and Pro Forma Financial Information of Piston Machinery described in the “Financial Information” section of the Prospectus does not present fairly:

• The historical statutory consolidated statement of profit or loss and other comprehensive income for Zhaoqing Piston Machinery Co. Ltd for FY2014, FY2015, and FY2016;

• The historical statutory consolidated statement of cash flows for Zhaoqing Piston Machinery Co. Ltd for FY2014, FY2015 and FY2016;

• The unaudited historical statement of financial position for Piston Machinery Ltd as at 31 December 2016;

• The historical pro forma consolidated statement of financial position of Piston Machinery Ltd as at 31 December 2016; and

• The pro forma transactions set out in Section 7.6.a of the “Financial Information” section are a reasonable basis for the historical pro forma consolidated statement of financial position as 31 December 2016;
in accordance with the measurement and recognition requirements (but not all of the presentation and disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements under IFRS as if the pro forma transactions set out in in Section 7.6.a of the “Financial Information” section had occurred at 31 December 2016.

We have assumed, and relied on representations from certain members of management of Piston Machinery, that all material information concerning the historical operations of Piston Machinery has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Restriction on Use

Without modifying our conclusion, we draw attention to the “Financial Information” section, which describes the purpose of the Historical and Pro Forma Financial Information, being for inclusion in the Prospectus. As a result, the Historical and Pro Forma Financial Information may not be suitable for use for another purpose.

Consent

Grant Thornton Corporate Finance has consented to the inclusion of this Independent Limited Assurance Report in the Prospectus in the form and context in which it is included.

Liability

The liability of Grant Thornton Corporate Finance is limited to the inclusion of this report in the Prospectus. Grant Thornton Corporate Finance makes no representation regarding, and has no liability, for any other statements or other material in, or omissions from the Prospectus.

Independence or Disclosure of Interest

Grant Thornton Corporate Finance does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Grant Thornton Corporate Finance will receive a professional fee for the preparation of this Independent Limited Assurance Report.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

Tim Goodman
Partner and Authorised Representative
Appendix A (Financial Services Guide)

This Financial Services Guide is dated 4 September 2017.

1 About us

Grant Thornton Corporate Finance Pty Ltd (ABN 59 003 265 987, Australian Financial Services Licence no 247140) (“Grant Thornton Corporate Finance”) has been engaged by Piston Machinery Limited (“Piston Machinery”, or the “Company”) to provide general financial product advice in the form of an Independent Limited Assurance Report (the Report) to accompany the Historical and Pro Forma Financial Information for the purpose of pre quotation disclosure prior to admission to the Australian Securities Exchange. You have not engaged us directly but have been provided with a copy of the report as a retail client because of your connection to the matters set out in the report.

2 This Financial Services Guide

This Financial Services Guide (“FSG”) is designed to assist retail clients in their use of any general financial product advice contained in the report. This FSG contains information about Grant Thornton Corporate Finance generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the report, and how complaints against us will be dealt with.

3 Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities and superannuation products and deal in a financial product by applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of securities and superannuation products.
4 General financial product advice

The report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail finance product advice directly to retail investors nor does it provide market related advice directly to retail investors.

5 Fees, commissions and other benefits we may receive

Grant Thornton Corporate Finance charges fees to produce reports, including the report. These fees are negotiated and agreed with the entity who engages Grant Thornton Corporate Finance to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this report, Grant Thornton Corporate Finance will receive from the Company a fee of $70,000 plus GST which is based on commercial rates plus reimbursement of out of pocket expenses.

Partners, Directors, employees or associates of Grant Thornton Corporate Finance, and related bodies corporate, may receive dividends, salary or wages from Grant Thornton Australia Ltd. None of those persons or entities receives non-monetary benefits in respect of, or that is attributable to the provision of the services described in this FSG.

6 Referrals

Grant Thornton Corporate Finance including its Partners, Directors, employees or associates and related bodies corporate, does not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licenced to provide.

7 Associations with issuers of financial products

Grant Thornton Corporate Finance and its Partners, Directors, employees or associates and related bodies corporate may from time to time have associations or relationships with the issuers of financial products. For example, Grant Thornton Audit Pty Ltd may be the auditor of, or provide financial services to the issuer of a financial product and Grant Thornton Corporate Finance may provide financial services to the issuer of a financial product in the ordinary course of its business.
In the context of the report, Grant Thornton Corporate Finance considers that there are no such associations or relationships which influence in any way the services described in this FSG.

8 Complaints

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the National Head of Corporate Finance at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint.

If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 367 287

Grant Thornton Corporate Finance is only responsible for the report and FSG. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

9 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

10 Contact Details

Grant Thornton Corporate Finance can be contacted by sending a letter to the following address:

National Head of Corporate Finance
Grant Thornton Corporate Finance Pty Ltd
Level 17, 383 Kent Street
Sydney, NSW, 2000
RISK FACTORS
9.1 Overview

An investment in the Company will be exposed to a number of risks. Risks that the Directors believe are key risks are described under Sections 9.1, 9.2, 9.3, 9.4 and 9.5.

The key risks are the risks that senior management and the Directors focus on when managing the business of the Group and have the potential, if they occurred, to result in significant consequences for the Group and an investment in it.

There are also risks that are common to all investments in Shares and which are not specific to an investment in the Company. For example, the general volatility of share prices, including as a result of general economic conditions (including monetary and fiscal policy settings, as well as exchange and interest rates) in Australia, the PRC and elsewhere and other events outside the usual course of the Group's business, such as acts of terrorism or war, can have an impact. Investors should note that the occurrence or consequences of some of the risks described in this Section of the Prospectus are partially or completely outside the control of the Company, its Directors and senior management. Further, investors should note that this description focuses on the risks referred to above and does not purport to list every risk that the Company may have now or in the future. It is also important to note that there can be no guarantee that the Company will achieve its stated objectives or that any forward looking statements contained in this Prospectus will be realised or otherwise eventuate.

Investors should satisfy themselves that they have a sufficient understanding of these matters, including the risks described in this section of the Prospectus and have regard to their own investment objectives, financial circumstances, taxation position and seek professional advice before investing in the Company. If you do not understand any part of this Prospectus, or are in any doubt as to whether to invest in Shares or not, you should seek professional advice from a stockbroker, solicitor, licensed financial adviser, accountant or other independent and qualified professional adviser, before deciding whether to invest.

(a) Debt risk

As at 31 December 2016, the Company has significant loan liabilities, including loans of $42.46 million (including bank debt of $39.3 million) and total liabilities of $60.35 million. It is imperative that the Group agree with its bank lenders to roll over its debt facilities maturing into 2018, failing which the Group will experience strain on its working capital and its solvency may be threatened. Despite this, the Company believes that its bank lenders will continue to support it in 2018. The Group's debt facilities, as with PRC bank debt facilities generally, must be repaid by their maturity date, before renewal and re-draw. The Company intends to use bridging finance to facilitate the due repayment and renewal of Group debt facilities.

The Company has agreed (in principle only) with Guangdong Nanyue Bank to restructure the total bank loans as follows:

(i) $1.9 million (RMB10 million) due in November 2017, will be converted to a 1 year working capital loan after repayment;
(ii) $19.2 million (RMB100 million) due in May 2018 is to be repaid and renewed with four installments one month before the expiry date;
(iii) $13.4 million (RMB70 million) due in November, December 2017 and May 2018, will be converted to a 1 year working capital loan after repayment; and
(iv) $3.8 million (RMB20 million) due in November 2017 will be repaid by setting off a cash bank deposit.

In May 2017, the Zhaoqing Government issued a "Notice in relation to providing bridging facilities to help small and medium enterprises bridge bank loans which are in the process of being renewed". Each bridging facility is expected to be within a limit of $3,842,000 (RMB20 million) and the period to be no more than 10 days. The daily interest rate of the bridging facility is 0.02%~0.03% p.a. for the first two facilities and 0.04%~0.045% p.a. after the first two facilities. The Group has historically met the criteria for these bridging facilities to be provided and the Company expects that it will continue to be able to access these bridging loans as and when required. The Company intends to use bridging finance to facilitate the bank debt facility renewals.

(b) Cash-flow risk

Nearly $34,758,000 (RMB 180 million) of equipment technical renovation funds was invested by the Group since its establishment and $7,684,000 (RMB 40 million) of research and development funds, were invested by the Group in the past 3 years, which has established the Group's strong position in its core industry. However, it has also resulted in low working capital, which is constraining capacity. Unless the Group can reduce pressure on its working capital, the Company may not be able to capitalise on opportunities for growth and the Group's liquidity may be at risk. The Offer is aimed, in part, at reducing this risk.
As the banks in the PRC have tightened their lending policies, some small to medium sized companies may face cash flow risks which may lead to reduction of sales revenue, declines in profit or even insolvency. The Group may be confronted with these risks and difficulties in recovering payments due by customers. The Group mitigates these risks by adhering to its strategy of enhancing the quality of its products, developing new products and seeking long-term relationships with its key customers who are relatively stable and have demonstrated good payment and invoice settlement practices.

(c) Minority oppression

Immediately after the Offer, the Existing Shareholders will beneficially own approximately 75% of Shares on issue (of which 62.02% will be held through controlled entities by Directors), assuming that the Minimum Subscription is raised and approximately 69.23% of Shares on issue (of which 57.25% will be held through controlled entities by Directors) if the Maximum Subscription is achieved. As a result, the Existing Shareholders, if they act together, will be able to exert a significant degree of influence over the Company's management and affairs and over matters requiring Shareholder approval, including the election of Directors and approval of significant corporate transactions.

This concentration of ownership may harm the market price of the Shares by delaying or preventing a change in control, even if the change is in the best interests of the Company's other Shareholders.

(d) Sector exposure

The Company's core business is air conditioner compressor components supplied primarily to large customers in the PRC. While this sector is relatively stable, the Company is materially exposed to any adverse conditions that may impact the industry, as its strategy to diversify into the automotive sector is still in its early stages.

Further, air conditioner manufacturers have significant pricing power over their suppliers and hence the Group has limited room to determine product prices. However, consolidation in the steel casting sector and policy incentives from the PRC government may afford the Company an opportunity to strengthen its own industry position.

(e) Customer Concentration

The Group has very significant customer concentration. Between 2014 and 2016, Group revenue generated from its top two customers represented over 70% of total revenue. However, customer concentration for the above two customers has declined from 86% in FY2014 to 72% in FY2016 due to the acquisition of new customers in FY2015 and FY2016.

(f) Market interdependence

The air conditioner compressor components market is directly correlated with the air conditioner market. Similarly, the motor vehicle component market is directly correlated with the motor vehicle market. Large fluctuations in the demand for residential air conditioners, commercial vehicles or passenger vehicles will have a corresponding impact on the demand for the Company's products and hence, the Company's performance.

(g) Product price variation

Prices of the Group's products are affected by variations in market supply and demand. A decrease in commodity prices or a decrease in demand for the Group's products, whether as a result of the actions of competitors or general economic conditions, may result in the Group having to reduce the prices of its products, reducing revenue and profit. However, it is likely that the Group's competitors will be affected in the same way as the Group.

(h) Tax Treaty Benefits

PRC tax law prescribes a withholding tax (WHT) of 10% on dividends and other PRC sourced passive income of PRC non resident enterprises, unless there is a tax treaty in place which provides otherwise. Pursuant to a treaty between Hong Kong and the PRC effective 21 August 2006, a company incorporated in Hong Kong will be subject to WHT of 5% on dividends it receives from its PRC Subsidiary if it holds more than a 25% interest in the PRC subsidiary (otherwise the WHT remains at 10%). The State Administrative of Taxation of China (SAT) published a tax notice on 27 October 2009, which provides the tax treaty benefit will be denied to "conduit" or shell companies without business substance and a beneficial ownership analysis will be used based on a "substance over form" principle, to determine whether or not to grant tax treaty benefits.

Should the PRC tax authorities provide confirmation, the Company's Hong Kong subsidiary should only be subject to 5% WHT on the dividends it receives from its PRC subsidiaries. However, this is subject to confirmation from the PRC tax authorities and is not automatically applied. Should confirmation not be provided, then the dividends received by the Company's Hong Kong subsidiary from the PRC Operating Subsidiaries will be subject to WHT of 10%, reducing Company profits.

See further Section 11.3.
(i) Input cost variation or supply shortages

The Group's products are largely dependent on the cost and supply of various commodities such as iron, steel, electrolytic nickel, copper, manganese, ferromolybdenum, chromium, antimony, silicon and magnesium, the selling price of which is determined by volatile world commodity markets. The Company has little control or influence over supply and demand market forces or other factors which may influence these market forces. Such factors include global changes in environmental laws, changes to infrastructure policies, economic conditions, availability and success of mining mineral deposits and an increase or decrease in competitors. These factors may increase the Group's input costs. The Group may not be able to recover all these costs from its customers in a timely manner or at all. If the Group is unable to secure adequate supplies of the required inputs at appropriate prices or if the quality of the available supplies is not acceptable, the financial performance of the Company may be adversely impacted. Likewise, any disruption or external market condition limiting the supply or increasing the cost of raw materials to the Group could materially impact the Group's ability to supply its own customers, profitability.

(j) Product liability risk

The Group's products are aggregated into air conditioners and motor vehicles. As these are mechanical devices, their failure can cause injury or even death. Should such an event be linked with the Group's products, considerable reputational damage may be caused to the Group from the perspective of its suppliers, customers and regulators. Any resulting loss of contracts for the supply of products may also result in significant product recall costs, compensation payments and the payment of significant penalties. All of these circumstances may have a material adverse effect on the Group's revenue, profitability and growth.

The Group does not maintain product liability insurance. It is possible that product warranty or product liability claims against the Group could arise from defects in products supplied by the Group. Claims could be made, including for product liability or damage or loss arising from defective products.

This risk is mitigated, to some extent, by the rigorous quality control and product testing that is carried out in the air conditioner and motor vehicle sectors.

(k) Loss of key customers

The Group could lose key customers due to a range of events, including as a result of failure to renew a contract, weakening of customer relationships or disputes with customers, failure to remedy a contractual breach or to comply with health and safety laws and regulations, or occupational health and safety requirements, failure to deliver products on time, consolidation of customers, insolvency of customers, increased competition or lack of input supply. The loss of any one or more of the Company's material customer contracts will materially and adversely affect the Group's revenue, profitability and growth.

The Group's contracts with its key customers are generally for a term of one year and it is possible they may not be renewed. However given the high barriers to entry, such as extensive quality assurance due diligence required before the Group's customers on-board new suppliers and the Group's long standing customer relationships, customers have shown preference for continuing and renewing contracts with the Group.

(l) Tax Liability Risk

The Group has unpaid tax liability incurring during 2014, 2015 and 2016 estimated at $1,701,493, represented by $1,179,493 in Value Added Tax (VAT) liability and $522,064 in Corporate Income Tax liability. These amounts have been adjusted in the financial statements in Section 7. However, it is unknown whether PRC authorities will impose interest and penalties, which can be up to 500% of the tax debt. There may also be further unpaid taxes for previous years that could result in the principal and penalties being higher.

The Company's CEO, Mr Pingfan Jia, has provided a written undertaking that he will personally bear the risk of resulting fines or orders to comply, such that the business of the Group will not be affected, unless that undertaking is not honoured. Further, the Directors have agreed to notify the tax authorities and propose to work on terms of settlement with them.

The Company intends to improve financial reporting and governance processes to ensure that tax obligations of the Group are complied with, in the future.

(m) High Technology Expertise classification

Entities in the Group have been taxed at a preferential corporate income tax rate of 15% (instead of 25%) under tax incentives for companies with “high technology expertise”. Should PRC tax authorities cease to classify those entities as qualifying for the preferential tax treatment, the higher corporate income tax rate of 25% will apply.

(n) Social security risk and housing provident fund

Pursuant to the regulations of the Administration of Housing Provident Fund and Social Insurance Law and its associated regulations in the PRC, employees and employers are required to make contributions to the social
security insurance and a housing provident fund. If an employer fails to register employees with the relevant authorities or fails to make the required contributions, the relevant authority may issue penalties, including fines and orders to pay, on the employer.

As at the date of this Prospectus, the Group has not yet paid the social security insurance and housing provident fund contributions for a portion of its employees. The Chief Executive Officer, Mr Pingfan Jia, has provided a written confirmation letter that he will personally bear the risk of fines or orders to comply, such that the business of the Company and its operations will not be affected by these underpayments.

According to a letter issued by the Zhaoqing Hi-Tech District Social Insurance Administration (Administration) on 18 May 2017, the Administration confirmed it has not fined the Group. In a following confirmation letter issued by the Administration, the Administration confirmed that the Company will not be fined for its failure to pay its contributions as required.

(o) Reliance on relationships and alliances

The Group has relationships with government, technical and advisory parties and other stakeholders in its key industries. The Group's success, in part, depends upon continued successful relationships with these parties. The loss of one or more of these relationships or a change in the nature or terms of one or more of these relationships may have a material adverse impact on the financial position and prospects of the Group.

(p) Third party risk

The operations of the Group require the involvement of a number of third parties, including suppliers and contractors. Financial failure, default or contractual non compliance on the part of such third parties may have a material impact on the operations and performance of the Group.

(q) Consolidation of customers and suppliers

Consolidation in the industries of the Group's customers or suppliers may reduce the Group's bargaining power with those customers or suppliers and lead to the Group transacting at less advantageous financial terms with those customers or suppliers.

(r) Underestimating new capital product production costs

Management may underestimate production costs in manufacturing a new product. The realised margin may be either less than expected or the Group may incur a loss on the manufacture and sale of the product. The Group's internal forecasts are based on certain assumptions regarding the level of capital expenditure required to maintain its operations. If the level of capital expenditure required is higher than expected, or if capital expenditure must be undertaken earlier than anticipated, or if there is a significant operational failure requiring capital expenditure, the financial performance of the Company may be adversely affected.

(s) Increased competition

Increased competition could result in loss of market share. The competitive nature of the key industries in which the Group operates necessarily implies that there can be no assurance that the Group will be able to compete successfully against current or future competitors.

To mitigate this risk, the Group has focused on providing a diverse range of products, a scope of offering that cannot easily be replicated. The Group is also committed to continuously innovating by investing in research and development.

(t) Substitution of the Group's products by other products

Continued product improvement by competitors may result in the Group's customers using substitutes in place of some of the Group's products. The Group may not always be able to match its competitors in both functionality and price. General technological development in the Group's key industries may render some of the Group's products obsolete or subject to significant pricing pressure as customers move to the use of substitute products and technologies.

(u) Failing to Match Production to Demand

The Group's objectives are dependent on its ability to meet commercial orders for its products. There is a risk that the Group will not be able to increase its production capacity quickly enough, while maintaining appropriate quality standards, to meet increased incoming orders. Any inability to meet orders (including as to compliance with quality standards) could result in lost revenue, breach of contract and may also cause reputational damage with particular customers and in the market more broadly, affecting the Group's financial performance and position.
The Group mitigates this risk by closely coordinating with its customers to understand their forward product requirements.

(v) **Customer demands**

The Group's customers, in their quest for technological improvement, may impose product requirements and performance capabilities which cannot currently be achieved with cast iron and steel materials. Should other types of metal casting, such as aluminium, be required, the Group will be unable to meet these demands without significant capital investment.

(w) **Product pipeline**

It is possible the Company will not succeed in its research and development endeavours and will be unable to produce a sufficiently wide product range to meet its customers' demands. This may adversely impact the Company's growth strategy.

To mitigate this risk, the Group carefully researches and monitors market trends throughout the product development phase. Samples of newly developed products are then provided to customers for their feedback prior to commercial production.

(x) **Impaired access to suitable finance and increases in interest rates**

The Group's continued ability to effectively pursue its strategy over time (including undertaking acquisitions) may depend in part on its ability to raise additional funds. There can be no assurance that any such funding will be available to the Group on favourable terms, or at all, if required. If adequate funds are not available on acceptable terms, the Group may not be able to take advantage of opportunities or respond to competitive pressures. In addition, the Group's interest payments under part of its debt facilities (see Section 9.1(a)) will increase if interest rates increase, which may negatively impact the Company's financial position.

(y) **Failure to comply with environmental and occupational health and safety laws and regulations**

The manufacturing processes used in conducting the Group's business can be dangerous. While the Company believes that appropriate safeguards have been put in place by the Group, such production processes could result in serious injury to employees or other persons and give rise to liability under occupational health and safety laws and regulations and also under the general law.

As at the date of this Prospectus, the Group has not been issued any fines, infringement notices, penalties or other notices of non-compliance by any relevant PRC authority for breach of environmental or occupational health and safety laws and regulations.

(z) **Environmental risk**

The Group is a producer of cast iron (and related alloys) products. As a result, environmental issues relating to noise, air, waste, water, emissions and contamination are likely to arise from time to time. The Group is subject to environmental laws and regulations in the Guangdong and Anhui provinces, PRC. The Group may be required to pay compensation costs and penalties as a result of environmental contamination, which could also give rise to breaches of environmental laws and regulations. This could have a material adverse effect on the Group's reputation, revenue and profitability.

The Operating Subsidiaries are required to obtain an environmental certificate prior to commencing any manufacturing activity, to minimise the chance of breaching environmental laws. The Group has complied with this requirement. As at the date of this Prospectus, the Group has not been issued any fines, infringement notices, penalties or other notices of non-compliance by any relevant PRC authority for breach of its legal environmental obligations.

(aa) **Disruption of business operations/acquisitions**

The Group is exposed to a range of operational risks relating to both current and future operations. Such operational risks include equipment failures, IT system failures, external service failures, industrial action or disputes and natural disasters. While the Group endeavours to take appropriate action to mitigate these operational risks, one or more of these risks may have a material adverse impact on the performance of the Company.

(bb) **Critical breakdowns**

The Group's production lines are vulnerable to critical breakdowns, as a failure of one portion of the line can result in the entire line becoming idle. This poses a material potential financial risk to the Company. To mitigate this risk, the
Group's DISA and other production lines have back up functions, which have capacity to restore and self-correct if defects occur, within certain limits.

(cc) **Operational risk**

The business of the Group may be affected by various factors which are beyond the control of the Group, such as industry reforms. The Group is dependent on the ongoing, efficient operation of its systems and infrastructure. Risks that may threaten the Group's operations include failure of critical machinery, power, gas, water supply and industrial action. The operation of the Group's foundries and manufacturing facilities involves risks to employees, contractors, and plant and equipment, including the risk of accidents arising from malfunction of equipment, natural disasters and force majeure. Such events may not always be foreseen or insured against and are beyond the control of the Group. The occurrence of such events may result in damage to the operations or reputation of the Group, and may have a material adverse effect on the Group's revenue, profitability and growth.

(dd) **Insurance risk**

In the PRC, it is not customary for businesses to take out extensive insurance protection. The Group has taken out compulsory vehicle insurance and public liability insurance for some of its employees and has limited insurance of its assets. However, the extent of that insurance does not cover risks to the extent common in Australia. Thus, the Group does not have insurance protection against business disruption and cannot recover compensation in such circumstances. Further, the Group does not have insurance covering personal injury to or death of all of its workers and is therefore exposed to such claims. Any uninsured loss or damage, litigation or business disruption may result in substantial cost to the Company and its subsidiaries, which could have a material adverse effect on the Company or its subsidiaries' business, net assets, financial condition and operational results.

This lack of comprehensive insurance coverage is also by reason of the early stage of the PRC insurance industry. Insurance companies in the PRC offer limited commercial insurance products or only offer them on unattractive terms. When balancing the risk of disruption or product liability or risk of damage against the cost of insuring against these risks and the difficulty of procuring commercially reasonable insurance product terms, the Company considers that it is not commercially sensible to acquire such insurance.

(ee) **Acquisition risk**

As part of its business strategy, the Group may from time to time undertake acquisitions of, or significant investments in, complementary companies or prospects in the PRC, Australia or other countries. To the extent that the Group grows through acquisition, the Group will face operational and financial risks commonly encountered with such a strategy, including (but not limited to) continuity or assimilation of operations and personnel, dissipation of the Group's limited management resources and impairment of relationships with employees and customers of the acquired business as a result of changes in ownership and management. In addition, depending on the type of transaction, it may take a substantial period of time to completely realise an acquisition's full benefit.

(ff) **Litigation or claims**

The Group may be subject to litigation and other claims or disputes in the course of its business, including employment disputes, contractual disputes, environmental claims, product liability claims and tax claims. Claims may be made by government agencies or regulators in the PRC in respect of various matters, including breaches or alleged breaches of legislation. The Group has entered into contracts which are material to its business and governed by the laws of the PRC. Should a dispute arise and result in court action, the legal procedure in the PRC may be different than in Australia. Such litigation, claims and disputes, including the costs of settling claims and associated penalties, may materially adversely affect the Group's operational and financial performance and reputation.

As at the date of this Prospectus, the Group is not facing any legal action, litigation or arbitration.

(gg) **Potential variability in dividend payments**

The payment of dividends by the Company is at the discretion of the Directors and will be a function of a number of factors, including the general business environment, the operating results and the financial condition of the Group, future funding requirements, capital management initiatives, potential strategic growth opportunities, taxation considerations, the level of retained earnings and available franking credits and any contractual, legal or regulatory restrictions on the payment of dividends by the Company. Whilst the Group has produced net profits for each of the past three financial years as set out in the audited accounts in Section 7, there can be no assurance that the Group will achieve profitability in the future and be able to pay dividends.
(hh) Dilution

Given the Group's need for increased working capital and its proposed capital investment programme, it is likely that the Company will raise capital in future, which will dilute Shareholders.

(ii) Regulatory risk

Piston Zhaoqing, as the main Operating Subsidiary in the PRC, requires certain licences and approvals to conduct its business. These licences are granted at the discretion of the relevant Chinese authorities and the criteria for eligibility may change. The business activities of Piston Zhaoqing are subject to the supervision of these authorities, which have the power to revoke previously granted licences or approvals or reject applications to renew or extend licences or approvals.

If the Group fails to meet the requirements of any applicable rules or regulations, it may incur legal liabilities. In particular, if any entity in the Group fails to obtain grants or renewals of any required licences or approvals, the business activities of the affected entity and the Group as a whole may be interrupted, or, if the affected entity continues to operate without the necessary licences and approvals, it may be penalised. Any interruption to the Group’s business activities or potential penalties may have a material adverse effect on the Group’s business, net assets, financial condition and operational results.

The Group, as at the date of this Prospectus, possesses all licences, permits and qualifications necessary to operate its business.

(jj) Intellectual property

There may be circumstances where the Group’s intellectual property cannot be protected or is subject to unauthorised disclosure, infringement or challenge by a third party. The Company may incur significant costs in asserting its rights in such circumstances. Even a registered patent can be invalidated in certain circumstances.

There can be no assurance that any patents the Group may own or control or licence now and in the future will afford the Group a competitive advantage, commercially significant protection of the intellectual property, or that any of the projects that may arise from the intellectual property will have commercial application.

(kk) Infringement of intellectual property

There is always a risk of third parties claiming involvement in technological discoveries. Further, competition in retaining and sustaining protection of intellectual property and the complex nature of intellectual property can lead to expensive and lengthy patent disputes, for which there can be no guaranteed outcome. Some parties may be able to utilise their greater financial resources to sustain the costs of litigation or proceedings.

As at the date of this Prospectus, no third parties have made any claims against the Group for intellectual property infringement.

(ll) Dependence on key personnel

The success of the Group depends to a significant extent on the ability, performance and experience of its key personnel. The loss of key personnel or an inability to recruit or retain suitable replacement or additional personnel may impact the Group’s ability to develop and implement its strategies, which may have an adverse effect on its future financial performance.

There can be no assurance that the Group will be able to attract or retain sufficiently qualified scientific, technical and management personnel or maintain its relationship with key scientific and professional organisations and contractors. The loss of key scientific, technical, professional or management personnel and the associated corporate knowledge of those people could have a detrimental impact on the Group and may adversely affect the Group by impeding the achievement of its research, product development and commercialisation objectives.

(mm) Liquidity and realisation risk

There is currently no public market through which the Shares of the Company may be sold. On Completion of the Offer, there can be no guarantee that an active market will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the ASX at any time. This may increase the volatility of the market price of the Shares and may prevent investors from acquiring more Shares or disposing of Shares they have acquired under the Offer. It may also affect the prevailing market price at which the Shareholders can sell their Shares. This may result in Shareholders who acquired Shares receiving a market price for their Shares at less or more than the Offer Price.
On completion of the Offer, Existing Shareholders will hold between 75% (based on the Minimum Subscription) and 69.23% (based on the Maximum Subscription) of the Shares, of which some or all may be classified by ASX as restricted securities and may be subject to escrow preventing their trading for between 12 and 24 months from the date of Official Quotation. The absence of any sale of these Shares by Existing Shareholders during the escrow period may cause, or at least contribute to, limited liquidity in the market for the Company's Shares. This could affect the prevailing market price at which Shareholders are able to sell their Shares.

(nn) **Trade policy**

The access to international markets of the Group's customers may be limited in the future, depending on trade policy. The Company's performance may, if the Group develops a significant export business, be adversely affected by such changes in trade policy and, in particular, the trade policies of the USA and Europe (being key markets in which air conditioners and motor vehicles are currently sold by the Group's customers).

(oo) **Unforeseen risks**

There may be other risks which Directors or management are unaware of at the time of issuing this Prospectus which may impact the Group, its operations and/or the valuation and performance of the Shares.

(pp) **Combination of risks**

The Group may be subject to a combination of risks, including any of the risks outlined in this Section 9, which could affect the performance valuation, financial performance and prospects of the Company.

(qq) **Force majeure events**

Force majeure events, or events beyond the control of the Company, may occur within or outside Australia that could affect the world economy, the operations of the Group and the price of Shares. These events include war, acts of terrorism, civil disturbance, politician intervention and natural disasters.

(rr) **Country risk and foreign Operations**

There are risks associated with operating in foreign countries. Country risks include exchange rate risk, economic risk, sovereign risk, political risk and transfer risk.

The Company's operating results and financial conditions are highly susceptible to changes in the PRC's political, economic and social conditions, as the Company's revenue is currently wholly derived from its Operating Subsidiaries in the PRC. Given that the Company is incorporated in Australia but its business operations are in the PRC, there is the risk of capital being restricted or frozen by government action.

There can be no guarantee that the government regulations in Australia, Hong Kong and China, in particular in relation to foreign investment, repatriation of foreign currency, taxation and the regulation of the cast iron, residential air conditioner components and motor vehicle components industries, will not be amended in the future to the detriment of the Group's business. Costs of compliance with laws and regulations in Australia, the PRC and Hong Kong may vary from current estimates.

(ss) **Transition from a Public Unlisted to Public Listed Company**

As part of its listing, the Company will implement appropriate governance systems and processes to manage its compliance with legislative and ASX Listing Rule requirements. There is a risk that, prior to or as a consequence of these systems and processes being implemented, unforeseen circumstances may arise that could have an impact on the Group's financial performance.

9.3 **Risks of doing business in the PRC**

(a) **Fluctuations in the economic, political and social conditions of the PRC**

The Group currently conducts most of its business operations in the PRC. Accordingly, the Company's results of operations, financial condition and prospects are significantly dependent on economic and political developments in the PRC. Since 1978, the PRC has implemented various reforms to its economic system. As a result of those reforms, the PRC's economy has been growing significantly for the past 3 decades. However, given the unprecedented and experimental nature of these reforms, they are potentially subject to refinement and changes, as the PRC government deems fit. Political, economic and social factors are also expected to play a role in refinement and changes of these policies. The possibility of such refinement and adjustment may consequently have a material impact on the Group's operations in the PRC and in turn, the Company's financial performance. The Company
cannot assure investors that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on the Group’s business and results of operations. The uncertainty surrounding the economy in the PRC makes it difficult for the Company to foresee and manage risks. A significant deterioration of economic conditions in the PRC may have a negative impact on the performance of the Company and the value of its Shares.

(b) Uncertainties with respect to the PRC legal system could have a material adverse effect on the Group

The PRC legal system is based on written statutes. Since the late 1970's, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in the PRC. The Company conducts its business primarily through its Operating Subsidiaries established in the PRC. These subsidiaries are subject to laws and regulations applicable to foreign investment in the PRC. However, as the PRC legal system continues to evolve, the interpretation of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties that may limit the legal protections available to the Group. Further, some regulatory requirements issued by certain PRC Government authorities may not be consistently applied. For example, the Group may have to resort to administrative and court proceedings to enforce a law or contract. However, since the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection in the PRC than in some other legal systems. These uncertainties may impede the Group’s ability to enforce the contracts it has entered into with its business partners, customers and suppliers.

Such uncertainties, including any inability to enforce contracts, together with any development or interpretation of PRC law that is adverse to the Group, could materially and adversely affect its business and operations. Furthermore, intellectual property rights and confidentiality protections in the PRC may not be as effective as in more developed countries.

Some of the laws and regulations and the interpretation, implementation and enforcement of such laws and regulations, are still subject to policy changes. The introduction of new laws, changes to existing laws and the interpretation or application of laws, or the delays in obtaining approvals from the relevant authorities, may also have an adverse impact on the Group’s business or operations.

The Company 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. These uncertainties could limit the legal protections available to the Group and other foreign investors. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of the Group’s resources and management attention.

(c) Enforcement of contracts in foreign jurisdiction

The Company and/or its subsidiaries have entered into contracts which are material to its business and governed by the laws of the PRC. Should a contractual dispute result in court action or should the Company be in a position to require the enforcement of the security interests it holds, the procedure in courts in the PRC may be different than in Australia.

(d) Government control of currency conversion

The PRC government imposes controls on the convertibility of RMB into foreign currencies and in certain cases, the remittance of currency out of the PRC. The Group receives all of its revenue in RMB and the Company relies principally on dividends from its PRC Operating Subsidiaries to fund any cash and financing requirements. Any inability of the PRC Operating Subsidiaries to distribute dividends or other payments to the Company will materially and adversely affect the Company’s ability to grow, make investments or acquisitions that could be beneficial to its businesses, pay dividends, or otherwise fund and conduct its business.

Under existing PRC foreign exchange regulations, payment of current account items, including profit distributions, interest payments and trade and service related foreign exchange transactions, can be made in foreign currencies without approval from SAFE, by complying with certain procedural requirements.

Therefore, the PRC Operating Subsidiaries are currently able to pay dividends in foreign currencies to the Company without prior approval from SAFE, by complying with certain procedural requirements. For conversion of RMB into foreign currency and remittance out of the PRC to pay for capital items such as repatriation of capital, securities investments and repayment of loans, approval from or registration with SAFE or its local branches is required.

Current PRC regulations permit the PRC Operating Subsidiaries to pay dividends only out of accumulated after-tax profits, if any, determined in accordance with Chinese accounting standards and regulations.
Approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions.

(e) Repatriation of Dividends

In future financial years, the Company hopes to make interim and final dividend payments to Shareholders, subject to the financial targets of the Company being achieved, available profits, the level of borrowings and the required level of working capital and statutory reserves. For more details please refer to Section 11.10 (Dividend policy).

The Group generates the majority of its profit through the business operations of the Group’s Operating Subsidiaries in the PRC. Piston Zhaoqing is a wholly foreign-owned enterprise (WFOE) under Chinese law. Under the PRC Company Law (1993) as amended in 2013 and the Wholly Foreign-Owned Enterprise Law (1986) as amended in 2014, a WFOE may remit profits generated in the PRC overseas only if the relevant restrictions are complied with. These include a rule requiring a WFOE to set aside 10% of its annual after-tax profits to a statutory common reserve fund each year before the distribution of any profit, until the aggregate balance of the statutory common reserve fund reaches 50% of the WFOE’s registered capital. As a result, the Group will need to set aside part of its per annum after-tax profit to the statutory common reserve fund every year in the short term. This may reduce the pool of funds that is available to be distributed as dividends to investors in their first few years of investing in the Company. This may result in lower dividend payments by the Company when compared to other listed companies that do not generate their profit in the PRC.

Apart from the requirements above regarding the repatriation of dividends, the PRC government also imposes additional restrictions on the repatriation of funds overseas in general. The transfer of funds from China to overseas is subject in some cases to approval requirements by the State Administration of Foreign Exchange (SAFE). While currently there are many circumstances under which SAFE will approve the repatriation of funds overseas, there is no guarantee that the Chinese government will not tighten their foreign exchange control policy. In such event, the Company’s ability to transfer funds from China to overseas may be limited, which may restrict the repatriation of dividends from China. In this regard, see Section 9.2(d)).

(f) Foreign exchange risks

The Company’s profitability will be generated in China. Economic or political instability in China (which may be caused by a number of unforeseeable events) may have an adverse effect on the Company.

China’s exchange rate has historically fluctuated in relatively short periods of time. Adverse movements in China’s exchange rate could result in a decreased reported contribution from the Chinese operations and this may have a material adverse effect on the Company. In addition, fluctuations in exchange rates between China and the countries of origin of the Company’s suppliers may impact the cost of the Group’s supplies.

(g) Cross-border enforcement of Director’s obligations

The Company’s Executive Directors and the controller of a major Shareholder of the Company, Mr Pingfan Jia, currently resides in the PRC. While the Australian legal obligations on Directors and shareholders are applicable and enforceable even to those who are resident outside Australia, it is harder for the Company to constantly ensure that those obligations are being complied with. In the event of any breach of obligation by the Directors or Shareholders, the Company’s financial position may be adversely affected.

In order to mitigate the risk, the Board holds Board meetings at least 3 times per year in order to maintain communication with the Directors and major Shareholders’ representatives who reside in the PRC.

9.4 Risks of investing in Securities

(a) Securities investments and share market conditions

There are risks associated with any securities investment. The prices at which the securities trade may fluctuate in response to a number of factors.

The price of Shares may rise or fall in relation to the Offer Price and investors who decide to sell their Shares, after Listing of the Company on ASX, may not receive the full amount of their original investment.

Furthermore, the share market may experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. These factors may materially adversely affect the market price of the securities of the Company, regardless of the Company’s operational performance. Neither the
Company nor the Directors warrant the future performance of the Company, or any return on investment in the Company nor the price of Shares.

Share market conditions are affected by many factors, including movements in local and international stock exchanges, general economic outlook, interest rates and inflation rates, exchange rate fluctuations, changes in investor sentiment towards equities or particular market sectors, domestic and international economic and political conditions, political instability, short selling and other trading activities, the demand for, and supply of, capital, government taxation, market supply, competition and demand and other legal, regulatory or policy changes or force majeure events.

(b) **Economic risk**

Changes in the general economic climate in which the Group operates may adversely affect the financial performance of the Company and the value of its assets. Factors which contribute to that general economic climate include:

(i) contractions in the world economy or increases in the rate of inflation;
(ii) international currency fluctuations;
(iii) changes in interest rates;
(iv) new or increased government taxes or duties or changes in taxation laws; or
(v) changes in government regulatory policy.

The Company's growth and profitability depend on the level of consumer confidence and spending in the PRC. The Group's results of operations are sensitive to changes in overall economic and political conditions that impact the cast iron industry. Many factors outside of Group's control, including interest rates, volatility of the world's stock markets, inflation and deflation, tax rates and other government policies and unemployment rates can adversely affect the cast iron industry. The domestic and international political environments, including military conflicts and political turmoil or social instability, may also adversely affect the cast iron, air conditioner component and motor vehicle component industries, which could in turn materially and adversely affect the growth and profitability of the Group.

9.5 **Speculative investment**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above risk factors and others not specifically referred to above, may materially affect the future financial or operational performance of the Company and the value of the securities offered under this Prospectus.

There may be other risks which Directors are unaware of at the time of issuing this Prospectus which may impact on the Company, its business and/or the valuation and performance of the Company's Shares.

Therefore, the Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or market value. Potential investors should consider that the investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Offer Shares pursuant to this Prospectus.
10 Material Contracts

The Board considers that certain agreements relating to the Group are significant to the Offer, the business of the Group or may be relevant to investors. A description of material agreements or arrangements, together with a summary of the more important details of each of these agreements, is set out below.

10.1 Debt Facility

As at 31 December 2016, the Company will have aggregate bank debt balances of $39.3 million, (of which $38.4 million (200 million RMB) is from Guangdong Nanyue Bank), including asset leases under an overall facilities limit of $69,156,000 (360,000,000 RMB) with Guangdong Nanyue Bank, summarised in the table below:

(a) Bank Loan Facilities

<table>
<thead>
<tr>
<th>No</th>
<th>Lender</th>
<th>Balance Owning</th>
<th>Interest Rate</th>
<th>Installsments</th>
<th>Loan term/Final repayment date</th>
<th>Purpose</th>
<th>Secured</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Guangdong Nanyue Bank</td>
<td>$16,136,400 84,000,000 RMB</td>
<td>8% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>27 May 2015 to 26 May 2018</td>
<td>Fixed asset loan</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Guangdong Nanyue Bank</td>
<td>$4,994,600 26,000,000 RMB</td>
<td>7.6% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>23 June 2015 to 26 May 2018</td>
<td>Fixed asset loan</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>Guangdong Nanyue Bank</td>
<td>$2,881,500 15,000,000 RMB</td>
<td>7% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>17 May 2017 to 17 May 2018</td>
<td>Working capital</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>Guangdong Nanyue Bank</td>
<td>$2,881,500 15,000,000 RMB</td>
<td>7% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>18 May 2017 to 18 May 2018</td>
<td>Working capital</td>
<td>Yes</td>
</tr>
<tr>
<td>5</td>
<td>Guangdong Nanyue Bank</td>
<td>$1,728,900 10,000,000 RMB</td>
<td>7% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>18 May 2017 to 18 May 2018</td>
<td>Working capital</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Guangdong Nanyue Bank</td>
<td>$1,921,000 10,000,000 RMB</td>
<td>7% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>17 May 2017 to 17 May 2018</td>
<td>Working capital</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>Guangdong Nanyue Bank</td>
<td>$1,921,000 10,000,000 RMB</td>
<td>6.3% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>3 Nov 2016 to 3 Nov 2017</td>
<td>Working capital</td>
<td>Yes</td>
</tr>
<tr>
<td>8</td>
<td>Guangdong Nanyue Bank</td>
<td>$1,921,000 10,000,000 RMB</td>
<td>6.3% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>14 Dec 2016 to 14 Dec 2017</td>
<td>Working capital</td>
<td>Yes</td>
</tr>
<tr>
<td>9</td>
<td>Guangdong Nanyue Bank</td>
<td>$1,921,000 10,000,000 RMB</td>
<td>4.13% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>11 Nov 2016 to 10 Nov 2017</td>
<td>Working capital</td>
<td>Yes</td>
</tr>
<tr>
<td>10</td>
<td>Guangdong Nanyue Bank</td>
<td>$1,921,000 10,000,000 RMB</td>
<td>4.13% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>10 Nov 2016 to 9 Nov 2017</td>
<td>Working capital</td>
<td>Yes</td>
</tr>
<tr>
<td>11</td>
<td>Postal Savings Bank of China Corporation</td>
<td>$576,300 3,000,000 RMB</td>
<td>5.44% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>11 Jan 2017 to 11 Jan 2018</td>
<td>Working capital</td>
<td>Yes</td>
</tr>
<tr>
<td>12</td>
<td>Media Financial Service</td>
<td>$281,500 1,500,000 RMB</td>
<td>11% per annum, payable monthly</td>
<td>Interest is payable monthly</td>
<td>12 Nov 2016 to 2 Nov 2017</td>
<td>Working capital</td>
<td>Yes</td>
</tr>
</tbody>
</table>
(b) Debt Restructure

The Company has agreed (in principle) with Guangdong Nanyue Bank to restructure bank loans as follows:

(i) $1.9 million (RMB10 million) due in November 2017, will be converted to a 1 year working capital loan after repayment;

(ii) $19.2 million (RMB100 million) due in May 2018 is to be repaid and renewed with four installments one month before the expired date;

(iii) $13.4 million (RMB70 million) due in November, December 2017 and May 2018, will be converted to a 1 year working capital loan after repayment; and

(iv) $3.8 million (RMB20 million) due in November 2017 will be repaid by setting off a cash bank deposit.

In May 2017, the Zhaoqing Government issued a "Notice in relation to providing bridging facilities to help small and medium enterprises bridge bank loans which are in the process of being renewed". Each bridging facility is expected to be within a limit of $3,842,000 (RMB20 million) and the period to be no more than 10 days. The daily interest rate of the bridging facility is 0.02%~0.03% p.a. for the first two facilities and 0.04%~0.045% p.a. after the first two facilities. The Group has historically met the criteria for use of these bridging facilities and the Company expects to access these facilities to facilitate debt facility renewals.

(e) Terms, conditions and covenants

These debt agreements contain covenants, default provisions and other stipulations characteristic of bank loan facility agreements. Some facilities are secured by Director guarantees.

(f) Security

The Zhaoqing Branch of the Guangdong Nanyue Bank holds mortgages over Piston Zhaoqing's land use rights, plant, buildings and workshops. Piston Jingtong's land use rights, R&D building, 3 workshops and machinery equipment are similarly encumbered to Guangdong Nanyue Bank. A floating charge (security) also exists over Piston Jingtong's accounts receivables, while there are cross guarantees in favour of the lender given by the PRC Operating Subsidiaries.

10.2 Agreements with Customers

The Operating Subsidiaries are party to a number of agreements under which the Group supplies its products to its customers. The key terms of these agreements, which typically take the form of framework agreements, are summarised below:

<table>
<thead>
<tr>
<th>Customer: Mitsubishi Electric (Guangzhou) Compressor Co., Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Term</strong></td>
</tr>
<tr>
<td><strong>Renewal</strong></td>
</tr>
<tr>
<td><strong>Key Terms</strong></td>
</tr>
<tr>
<td><strong>Products</strong></td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
</tr>
<tr>
<td><strong>Payment terms</strong></td>
</tr>
<tr>
<td><strong>Liquidated damages or indemnity provisions</strong></td>
</tr>
<tr>
<td><strong>Warranties</strong></td>
</tr>
<tr>
<td>Customer: Panasonic Wanbao (Guangzhou) Compressor Co., Ltd</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Term</strong></td>
</tr>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Renewal</td>
</tr>
<tr>
<td><strong>Key Terms</strong></td>
</tr>
<tr>
<td>Products</td>
</tr>
<tr>
<td>Pricing</td>
</tr>
<tr>
<td>Payment terms</td>
</tr>
<tr>
<td>Warranties</td>
</tr>
<tr>
<td>Transfer of title</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer: Landa Compressor (Wuhan, Chongqing, Zhuhai, Hefei) Co., Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Term and termination</strong></td>
</tr>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Renewal</td>
</tr>
<tr>
<td><strong>Key Terms</strong></td>
</tr>
<tr>
<td>Products</td>
</tr>
<tr>
<td>Pricing</td>
</tr>
<tr>
<td>Payment terms</td>
</tr>
<tr>
<td>Warranties</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer: Piston Anhui</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Term and termination</strong></td>
</tr>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Renewal</td>
</tr>
<tr>
<td><strong>Key Terms</strong></td>
</tr>
<tr>
<td>Products</td>
</tr>
<tr>
<td>Pricing</td>
</tr>
<tr>
<td>Payment terms</td>
</tr>
<tr>
<td>Warranties</td>
</tr>
</tbody>
</table>
Customer: Anhui Meizhi Precision Manufacturing Co., Ltd and Guangdong Meizhi refrigeration equipment co., Ltd

<table>
<thead>
<tr>
<th>Term and termination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Renewal</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
</tr>
<tr>
<td>Pricing</td>
</tr>
<tr>
<td>Payment terms</td>
</tr>
<tr>
<td>Warranties</td>
</tr>
<tr>
<td>Delivery</td>
</tr>
</tbody>
</table>

Payment terms are typically 60 to 180 days.

10.3 Agreements with Suppliers

In producing its products, the Group purchases various raw materials from its suppliers, including steel, ferromolybdenum, electrolytic nickel, chromium, antimony, manganese, ferrosilicon and raw iron. Generally, but not always, purchases are made at prices fixed in short term contracts for a fixed amount of materials. Payment is generally at the time of delivery of the materials. Suppliers generally give warranties as to the quality of their goods.

10.4 Agreements relating to premises

(a) Land Use Rights

The Group has entered into Land Use Agreements with relevant authorities for use of land on which the Group's business operations are conducted, key terms of which are summarised below:

<table>
<thead>
<tr>
<th>Holder of land use rights</th>
<th>Property reference</th>
<th>Property location</th>
<th>Exclusive Use Area (m²)</th>
<th>Permitted uses of land</th>
<th>Date of termination</th>
<th>Annual payments for land use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piston Zhaoqing</td>
<td>ZFGY (2013), No. 0080039</td>
<td>To the south of Zhaoqing Foyu Heavy Industry Co., Ltd. and to the west of Zhaoqing Fengzexiang Plastics Industry Co Ltd</td>
<td>18820</td>
<td>Industrial</td>
<td>24 September 2057</td>
<td>$7,320 (RMB37641)</td>
</tr>
<tr>
<td>Piston Zhaoqing</td>
<td>YFDZZWSZ, No 20100568</td>
<td>Plant A, Zhaoqing PISTON Machinery Co., Ltd., Linjiang Industrial Park, Hi-tech Industry Development Zone, Zhaoqing City</td>
<td>4776</td>
<td>Industrial</td>
<td>24 September 2057</td>
<td>$7,546 (RMB39282)</td>
</tr>
<tr>
<td>Piston Zhaoqing</td>
<td>YFDZZWSZ, No 20100569</td>
<td>Complex-use building, Zhaoqing PISTON Machinery Co., Ltd., Linjiang Industrial Park, Hi-tech Industry Development Zone, Zhaoqing City.</td>
<td>2147</td>
<td>Industrial</td>
<td>24 September 2057</td>
<td>$6,140 (RMB31962)</td>
</tr>
<tr>
<td>Piston Zhaoqing</td>
<td>YFDZZZ, No C6890842</td>
<td>Casting Workshop, Zhaoqing PISTON Machinery Co., Ltd., Linjiang Industrial Park, Hi-tech Industry Development Zone, Zhaoqing City</td>
<td>2,394</td>
<td>Industrial purpose</td>
<td>24 September 2057</td>
<td>$5,560 (RMB28946)</td>
</tr>
</tbody>
</table>
The buildings on these land use right areas are owned by the Group.

(b) Property Lease

On 22 March 2017, Anhui Piston entered into a lease agreement with Wuhu Beisi High-tech Park Co., Ltd as Lessor. Under the lease, Anhui Piston leases a two-story factory in the Beisi High-tech Park from the lessor, with a first floor area of 1,686 square meters. The first floor rent is 10.50 yuan per square metre, payable monthly. The area of the second floor is 443 square metres, with rent of 9.50 yuan per square meter payable monthly. The lease term commenced on 1 April 2017 and ends on 30 May 2018. Anhui Piston pays outgoings relating to the premises.

### 10.5 Eagle IG Hong Kong Limited Agreement

Piston Zhaoqing engaged Eagle IG Hong Kong Limited under which Eagle IG Hong Kong Limited agreed to provide consulting services to Piston Zhaoqing in relation to its initial public offering, conducted through the Company. In consideration of these services, 3,750,000 Shares have been issued to Eagle IG Hong Kong Limited.

### 10.6 Convertible Loan Agreements

During 2016-2017, the Group obtained unsecured, interest-free loans from ten seed investors, who agreed to convert their loans into Shares once the Prospectus was lodged. To this end, $2,649,000 of loans has been repaid by the issue of 6,650,000 Shares prior to lodgement of this Prospectus. In this regard, see Section 11.18.

### 10.7 Executive Director Employment Agreements

The Company has entered into an executive services agreement (Executive Services Agreement) with each of its executive directors, namely Mr Pingfan Jia, Mr Lei Wang and Mr Xianjun Yuan. In this regard, see Section 5.5.
10.8 Non-executive director engagement letters

The Company has entered into letters of appointment with its non-executive directors, namely Mr Peter Wong and Mr Dennis Trlin. In this regard, see Section 5.5.

10.9 Key terms of Director Agreements

The table below summarises key terms of the Executive Services Agreements and the letters of engagement for the non-executive directors, as well as those of the Company Secretary and Public Officer, Ms. Keekee Wang and the Chief Financial Officer, Mr Daxi Xiong:

<table>
<thead>
<tr>
<th>Director</th>
<th>Pingfan Jia</th>
<th>Lei Wang</th>
<th>Xianjun Yuan</th>
<th>Peter Wong</th>
<th>Dennis Trlin</th>
<th>Keekee Wang</th>
<th>Daxi Xiong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>Chief Executive Officer</td>
<td>Executive Director</td>
<td>Executive Director</td>
<td>Non-Executive Director</td>
<td>Non-Executive Director</td>
<td>Company Secretary, Public Officer</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>Director’s and Officer’s Fee</td>
<td>$30,000</td>
<td>$30,000</td>
<td>$10,000</td>
<td>$40,000</td>
<td>$40,000</td>
<td>$36,000</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Annual Salary</td>
<td>Nil</td>
<td>Nil</td>
<td>53,788 (RMB 280,000)</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>$34,578 (RMB180,000)</td>
</tr>
<tr>
<td>Superannuation</td>
<td>Inclusive</td>
<td>Inclusive</td>
<td>Inclusive</td>
<td>Inclusive</td>
<td>Inclusive</td>
<td>n/a</td>
<td>Inclusive</td>
</tr>
<tr>
<td>Term</td>
<td>Indefinite</td>
<td>Indefinite, subject to mandatory director rotation rules in the Listing Rules</td>
<td>Indefinite, subject to mandatory director rotation rules in the Listing Rules</td>
<td>Indefinite, subject to mandatory director rotation rules in the Listing Rules</td>
<td>Indefinite, subject to mandatory director rotation rules in the Listing Rules</td>
<td>12 months, with option for a renewal</td>
<td>Indefinite, subject to mandatory director rotation rules in the Listing Rules</td>
</tr>
<tr>
<td>Termination Notice Period</td>
<td>6 months</td>
<td>3 months</td>
<td>3 months</td>
<td>3 months</td>
<td>3 months</td>
<td>3 months</td>
<td>3 months</td>
</tr>
</tbody>
</table>

The Company will also, subject to certain conditions, reimburse directors and officers for all reasonable travelling intra/interstate or overseas, accommodation and general expenses incurred in the performance of all duties in connection with the business of the Company and its Related Bodies Corporate (as defined in the Corporations Act).

The Executive Services Agreement and non-executive director letter agreements otherwise contain terms and conditions considered appropriate for such agreements.

10.10 Deeds of Access, Insurance and Indemnity

Under the Constitution, the Company is required to indemnify all Directors and officers, past and present, against all liabilities allowed under law relating to their offices. Under the Deeds of Access, Insurance and Indemnity, the Company agrees to indemnify each of its Directors against all liabilities to another person that may arise from their position as a Director of the Company or its subsidiaries, to the extent permitted by law. The Deeds stipulate that the Company will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

Under the Constitution, the Company may arrange and maintain directors’ and officers’ insurance for its Directors, to the extent permitted by law and under the Deeds of Access, Insurance and Indemnity, the Company must maintain such insurance cover for each Director for the duration of the access period, namely 7 years after they cease to be Directors.

The Deeds also permit Directors and ex-Directors access to Company documents and records, in certain circumstances and subject to certain reasonable exceptions.

10.11 Related Party Loans

As of 31 December 2016, related parties of Piston Zhaoqing, a senior manager and former shareholder of Piston Zhaoqing, listed below, have advanced, interest free and unsecured, $3,313,000 to the Group.
10.12 Mandate Agreement - AGC Capital Securities and the Company

On 14 August 2017, the Company and AGC Capital Securities Pty Ltd ABN 36 168 909 260 (AFSL Number: 481024) (AGC Capital Securities) entered into a mandate letter (Mandate Letter) pursuant to which AGC Capital Securities was appointed as the exclusive lead manager in respect of the Offer.

In consideration for AGC Capital Securities’ services under the Mandate Letter, AGC Capital Securities is entitled to the following fees:

(a) a management fee of 2% (plus GST) on the amount of capital raised under the Offer;
(b) a capital raising fee of 5% on the amount of capital raised under the Offer from which AGC Capital Securities will pay all third party selling fees; and
(c) a monthly advisory fee of $20,000 (plus GST) for each month up to a maximum of $60,000.

The Company agrees:

(a) to indemnify and hold harmless AGC Capital Securities, its related bodies corporate and their directors, employees, agents and contractors (Indemnified Persons) against; and
(b) to reimburse each Indemnified Person for any legal expenses (on a full indemnity basis) or other expenses incurred by an Indemnified Person in connection with any investigation or defence of any claim, demand, loss, expense, liability or action (Loss) arising directly or indirectly from or relating to any of the capital raising, this prospectus, marketing material, this Offer and due diligence, in each case to the fullest extent permitted by law.

The Company agrees that the Indemnified Persons will not have any liability to the Company, its related bodies corporate and their shareholders, creditors, directors, employees, agents and contractors in relation to any loss arising directly or indirectly from or relating to the AGC Capital Securities services or the Offer and AGC Capital Securities’ activities contemplated in the Mandate Letter as well as the capital raising, Prospectus, marketing material, Offer and due diligence as stated in the Mandate Letter, in each case to the fullest extent permitted by law.

AGC Capital Securities may terminate the Mandate Letter if the Company breaches the Mandate Letter and does not remedy the breach within 10 business days of written notice of the breach by AGC Capital Securities.

The Company retains the right to terminate the Mandate Letter at any time:

(a) if a material breach of the Mandate by AGC Capital Securities fails to be rectified within 10 business days;
(b) if the Company wishes to withdraw from listing on ASX; or
(c) if the Company is dissatisfied with AGC Capital Securities’ performance and has provided AGC Capital Securities with written notice and an opportunity to rectify the cause of such dissatisfaction.

In the event that the Company terminates the Mandate Letter other than for cause at any time after one month from the date of execution of this Mandate Letter, or AGC Capital Securities terminates this Mandate Letter for cause, AGC Capital Securities will be entitled to be paid the sum of $30,000.
10.13 Agreements with Universities

(a) The PRC

The Operating Subsidiaries have entered into agreements with several universities, including the Tianjin Polytechnic University and Changzhou Vocational Institute of Light Industry. These agreements facilitate cooperation between the Group and those universities for the development of manufacturing technology, the resulting intellectual property being available to the Group for its commercial purposes and to the universities for research purposes. Neither the Group nor the universities transfer to the other, ownership of their own intellectual property.

(b) Australia

In July 2017, the Company entered into a non-binding Memorandum of Understanding (MOU) with the University of New South Wales. The MOU stipulates a term of 12 months during which the parties will explore means of collaboration and to that end, if agreement is reached, enter into a formal agreement. The scope of collaboration includes commercialisation of current research achievements of the university in precision manufacturing (phase 1) and then to further develop research outcomes achieved (phase 2). This will be achieved by:

(i) exchange of information;
(ii) meetings; and
(iii) reciprocal site visits of personnel.

The Company is hopeful that a formal agreement incorporating the principles enshrined in the MOU will be entered into in the near future.
ADDITIONAL INFORMATION
11.1 Corporate Structure

(a) Piston Machinery Limited
The Company was incorporated in New South Wales, Australia on 5 May 2017. It acquired all the shares in the Group’s Hong Kong company, Piston Holding Limited on 22 May 2017, thereby becoming the ultimate holding company of the Operating Subsidiaries.

(b) Piston Holding Limited
Piston Holding Limited:
(i) was incorporated on 22 May 2017 in Hong Kong as a vehicle to hold all shares in the Group’s Operating Subsidiaries and facilitate the payment of dividends to Australian shareholders; and
(ii) is wholly owned by Piston Machinery Ltd.

(c) Zhaoqing Piston Machinery Co Ltd
Piston Zhaoqing:
(i) was incorporated in April 2007, headquartered in Zhaoqing city in the Pearl River Delta region. Piston Zhaoqing specialises in the manufacture of air conditioning compressor components and counterweights; and
(ii) is wholly owned by Piston Holding Limited.

(d) Zhaoqing Jingtong Machinery Co Ltd
Piston Jingtong:
(i) was incorporated in February 2007, headquartered in Zhaoqing city in the Pearl River Delta region; and
(ii) is wholly owned by Piston Zhaoqing.

(e) Anhui Piston Machinery Technology Co Ltd
Piston Anhui:
(i) was incorporated in May 2011, headquartered in the economic development zone of Wuhu city in Anhui province; and
(ii) is wholly owned by Piston Zhaoqing.

11.2 Regulatory Regime

(a) Summary of PRC Law
This section contains a brief outline of the legal framework and key laws and regulations of the PRC relevant to the Group and its operations in the PRC. The Group operates exclusively in the PRC at this point.

(i) Ownership of land
Generally in the PRC, the State owns all land other than rural lands which may be owned by collectives of farmers. Land ownership is established under the PRC Constitution. The local government may either grant’ or ‘lease’ to industrial land users land use rights (LURs) to land planned for industrial purposes for a fixed period, through signing land grant contracts or land leases and issuing State-owned Land Use Certificates. The industrial land users must pay land grant fees for the granted LURs or rent for the leased LURs. Land collectively-owned by local villages or land not planned for industrial use may not be granted or leased to industrial land users, but may be converted into State-owned industrial land by the State through an often time-consuming process which requires approvals of the State Council or the relevant provincial level PRC governments and then be granted or leased to industrial land users.

(ii) Construction and Ownership of Buildings
A Permit for the Commencement of Construction must be obtained from the local construction bureau before commencing any construction. Upon completion of the construction, an Inspection and Acceptance Approval for the building must be obtained from the local authorities, including those in charge of construction quality, fire safety and workplace health and safety.

The relevant government authority of the PRC may then grant a Certificate of Building Ownership to certify ownership of any relevant building.
(iii) Taxation of company operations

Among the Group, Piston Zhaoqing and its subsidiary Piston Jingtong are currently subject to a 15% enterprise income tax on their profits in the PRC. Piston Anhui is currently subject to a 25% enterprise income tax on its profits in the PRC.

The Group is currently subject to a 17% value-added tax (which is similar in concept to GST in Australia).

In addition, before any profit distribution can occur, the Group must apply after tax profits towards the following:
(i) losses incurred in previous years; and
(ii) at least 10% of after-tax profits must be set aside each year to a separate statutory surplus reserve fund until the cumulative amount of that reserve reaches 50% of the registered capital of the Group.

(iv) Constitutional Government and Legal System In the PRC

The PRC Constitution forms the basis of Government in the PRC and of PRC law. PRC Law also consists of written laws, regulations and directives. Under the PRC Constitution, the National People's Congress of the PRC (NPC) has the power to amend the Constitution and to enact and amend primary laws of the PRC. The Standing Committee of the NPC also has certain powers to enact and amend laws of the State.

Administrative rules and regulations may be enacted by the State Council of the PRC which is the supreme body of State administration in the PRC.

Laws, regulations and directives may be passed and are administered at various levels of provincial, regional and municipal government. These laws, regulations and directives are binding on citizens and corporations and are required to be consistent with the Constitution, primary laws enacted by the NPC or its Standing Committee and with the State Council's rules and regulations.

(v) Courts and Judicial System

Under the Constitution of the PRC and the Law of Organisation of the People's Courts, the People's Courts comprise the Supreme People's Court, the Local People's courts, Military Courts and other special courts.

The judicial function of people's courts at lower levels is subject to supervision of People's Courts at higher levels.

The People's Courts adopt a two-tier final appeal system. A party may appeal against the judgement or order of the first instance of the Local People's Court to the People's Court at the next higher level. Judgements or orders of the second instance at the next higher level are final and binding. Judgements or orders of the first instance of the Supreme People's Courts are also final and binding. If, however, the Supreme People's Court or a People's Court at a higher level finds an error in a final or binding judgement which has taken effect in any People's Court at a lower level, a retrial may be conducted according to the judicial supervision procedures.

PRC civil procedures are governed by the Civil Procedure Law of China (the Civil Procedure Law) adopted on 9 April 1991 and amended on 26 June 2017. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the People's Courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgement or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the People's Court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected.

A foreign enterprise is accorded the same legal rights and obligations as a citizen or legal person of the PRC.

If any party to a civil action refuses to comply with a judgement or order made by a People's Court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the People's Court to enforce the judgement, order or award. The time limit on the right to apply for such enforcement is two years.

A judgement or ruling obtained outside the PRC may be enforced in the PRC, subject to certain exceptions. The principal exceptions are that the principle of reciprocity applies or there must be an international or bilateral treaty in place with the foreign country in which the judgement or order has been made. The People's Court will not enforce a judgement if the People's Court forms the view that the foreign order or judgement would violate the Constitution or fundamental legal principles of the PRC, or impact on the sovereignty, security or social or public interests of the PRC or its citizens.
Similarly, a person in the PRC may seek to enforce a judgement or order of the People's Court outside the PRC, if an appropriate treaty is in place with the relevant foreign jurisdiction and subject to the laws of the foreign jurisdiction.

(vi) Foreign Exchange Control

A managed floating exchange rate regime applies following reforms since 1993 and particularly under the Public Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime promulgated 21 July 2005.

Despite the relaxation of foreign exchange control over current account transactions, approval of the foreign exchange administration authority is still required before an enterprise may receive a foreign currency loan, provide a foreign exchange guarantee, make an investment outside the PRC or enter into any other capital account transaction that involves the purchase of foreign exchange.

Foreign investment enterprises which require foreign exchange for their ordinary trading activities, such as trade services and payment of interest on foreign debts, may purchase foreign exchange from designated foreign exchange banks.

(vii) Environmental Regulations

National guidelines and standards for pollution control are set by the Administrative Supervisory Department of Environmental Protection of the State Council under the Environmental Protection Law of China. Various provisional governments, regional authorities and municipalities have authority to set specific guidelines and impose guidelines in relation to compliance with environmental requirements if national guidelines are not adequate.

(b) Licences and permits

The Company holds all the licences and approvals required to operate its business and implement its strategy. In the context of the PRC's regulatory regime, the Directors do not expect that renewals of the above licences or qualifications will be difficult to obtain, when required.

(c) Tax concessions

In 2013 2016 Piston Zhaoqing and Piston Jingtong received preferential tax treatments as a result of research and development status. Under these tax concessions, Piston Zhaoqing and Piston Jingtong's corporate income tax was 15% as opposed to the statutory 25%.

(d) Government Subsidies

From time to time, the Group may be eligible for subsidies from the government. These subsidies do not reoccur and are provided as a lump sum payment at the end of the project life or the qualifying event. Zhaoqing Piston and Piston Jingtong have previously received subsidies from the government and may receive subsidies in future, although their receipt is not guaranteed.

11.3 Taxation of the Group

(a) People's Republic of China (PRC) tax

The Group's Operating Subsidiaries in China will derive China sourced income and be liable for tax in China.

The Company itself will derive China sourced income from its Operating Subsidiaries in China, through Piston Holding Limited, which may be in the form of dividends, management income, administrative reimbursements, interest or royalties.

All transactions between the Company and its subsidiaries in China will have to comply with China's transfer pricing laws.

(b) Unfranked Dividends and taxation on Dividends

PRC withholding tax:

As a holding company, the Company will rely principally on dividends from its Operating Subsidiaries in the PRC, through Piston Holding Limited, for its cash requirements.
Current PRC regulations permit the Operating Subsidiaries to pay dividends only out of accumulated after tax profits as determined under PRC GAAP less any recovery of accumulated losses and required allocations to statutory common reserves, if any.

Piston Zhaoqing's distributable profits can only be confirmed after Piston Zhaoqing files its year end enterprise income tax return, together with the audited financial statements of the prior year by 31 May each year.

Withholding tax also applies to royalties, rent, interest and certain capital gains earned by Piston Holding Limited from the Operating Subsidiaries.

Pursuant to the arrangement between the PRC and the Hong Kong Special Administrative Region, the withholding tax rate on dividends distributed by a foreign investment enterprise in Hong Kong will be at a preferential tax rate of not more than 5% of the total dividend declared if the “Beneficial Owner” of the dividends is a company that holds directly at least 25% of the share capital of the company paying the dividend. In the event that a company is not considered to be a “Beneficial Owner” of the dividends, the preferential tax rate does not apply and the withholding tax rate of 10% will be implemented.

If the Company is not deemed to be the “Beneficial Owner” of the dividends distributed through Piston Holding Limited and the Company is therefore subject to a withholding tax rate which is higher than the 5% preferential tax rate, it may limit the amount of dividends declared by the PRC Operating Subsidiaries and hence, dividends payable to Shareholders.

Cautionary notes:

There is no assurance that the Chinese and Hong Kong governments will not amend the above treaty, or that the Company will continue to be deemed to be the “Beneficial Owner” of the dividend by the local tax authorities and be entitled to the preferential tax rate.

Hong Kong tax implications:

Interest income received by the Company from deposits placed in Hong Kong with an authorised institution is exempt from Hong Kong profits tax provided that the deposit is not used to secure or guarantee money borrowed generating tax deductible interest expenses. Interest income received by the Company from offshore bank deposits should be non-taxable on the basis that the provision of credit is made outside Hong Kong.

Dividend income received from local corporations is specifically exempt from Hong Kong profits tax. In addition, dividend income received from overseas corporations (such as Piston Zhaoqing) is regarded as having a non-Hong Kong source and therefore is also not subject to Hong Kong profits tax.

Other income derived by the Company such as management income, administrative reimbursements and royalties may be taxable in Hong Kong at the company rate of 16.5% if it is considered to be derived in Hong Kong.

There are no foreign exchange controls in Hong Kong. Dividends paid to either a resident or non-resident of Hong Kong are not subject to any withholding tax.

Limited franking credits:

If the Company becomes liable for any Australian tax, Shareholders may receive franking credits for the amount of tax paid. However, there is still no guarantee that the Company will have sufficient franking credits in the future to fully frank dividends or that the franking system will not be varied or abolished.

The value and availability of franking credits to a Shareholder will also differ depending on the Shareholder’s particular tax circumstances. Shareholders should also be aware that the ability to use franking credits, either as a tax offset or to claim a refund after the end of the income year, will depend on the individual tax position of each Shareholder.

Any dividends received by the Company from its non-Australian subsidiaries can be paid by the Company as dividends to its own shareholders. To the extent that dividends are paid by Piston:

(i) to non resident shareholders, they should be exempt from Australian dividend withholding tax under the Conduit Foreign Income (CFI) provisions; and
(ii) to resident shareholders, they will only be subject to domestic withholding tax to the extent the dividend is unfranked and where the relevant resident shareholder has not quoted their Tax File Number or Australian Business Number to Piston.
11.4 Taxation implications of investing under the Offer

Set out below is a general overview of the Australian taxation implications for investors who acquire the Offer Shares on capital account. This Section 11.4 is based on legislation applicable at the time of its preparation. Given the complexity of taxation laws, it does not cover all possible implications for particular investors.

As the tax position of each investor may vary depending on their individual circumstances, this Section 11.4 should not be considered advice specific to any particular investor. Before lodging an Application, each investor should seek independent professional advice with respect to the tax consequences applicable to their individual circumstances.

(a) Taxation of dividends

The taxation of dividends declared by and the treatment of the dividends which are paid to investors will vary depending on whether or not the investor is an Australian resident or foreign resident. The taxation treatment will also vary depending on the extent to which any dividends carry a franking credit.

(b) Dividends received by Australian resident Shareholders

For Australian resident individuals and complying superannuation entities, dividends on the Offer Shares will be assessable income of the Shareholder in the income year in which they are paid (or deemed to be paid) to the Shareholder. If the dividend carries a franking credit (for imputed Australian corporate tax paid by the Company) then the dividend paid (or deemed to be paid) plus the franking credit will be included in the Shareholder's taxable income and subject to tax at the Shareholder's tax rate. The Shareholder will be entitled to offset the franking credit against tax payable by the Shareholder if the Shareholder is a qualified person. A qualified person is a Shareholder who satisfies the holding period rule (by holding shares on which the dividend is "at risk" for at least 45 days continuously from the day after the Shareholder acquires the shares to the 45th day after the shares become ex dividend) and the related payments rule.

Individuals and complying superannuation funds are entitled to a refund of any part of the franking credits that exceed their tax payable.

The treatment for Australian resident companies is similar save that excess franking credits are not refundable. Instead, Australian resident companies can convert excess franking credits to tax losses that can potentially be deductible against income in future years.

A franked dividend received by a trust is generally treated as flowing indirectly to the beneficiaries. The taxable amount derived by the beneficiaries is the amount of the dividend plus the franking credit and the beneficiaries are entitled to the offset.

Unfranked dividends received by Australian resident Shareholders will be taxable at the Shareholder's tax rate. For individuals, this tax rate may be up to 47% (including Medicare levy). For companies and complying superannuation funds, rates of tax are generally 30% and 15% respectively.

(c) Dividends received by non resident Shareholders

Dividend withholding tax is not imposed on dividends paid to foreign Shareholders to the extent that they are franked. It may be necessary for the Company to withhold tax from unfranked dividends paid to foreign Shareholders and remit the tax to the Australian Taxation Office.

Where unfranked dividends are paid to non resident Shareholders and the unfranked dividend is not declared to be "conduit foreign income", dividend withholding tax must be deducted from the gross dividends paid. If the Shareholder is a resident of a country that does not have a Double Tax Agreement (DTA) with Australia then a 30% withholding tax rate will be applied to dividends paid to the non resident Shareholder. If the Shareholder is a resident of a country that does have a DTA with Australia then the DTA will determine the maximum amount of withholding tax that can be imposed. DTA dividend withholding tax rates generally range from 0% to 15%.

(d) Disposal of Shares

As noted above, the following overview of Australian tax implications associated with disposal of Offer Shares is confined to investors who hold their shares on capital account. Australian income tax laws impose tax on capital gains (CGT).

Persons who acquire Offer Shares on revenue account or for a share trading purpose should seek independent professional advice as the issues are complex and the tax implications depend heavily on individual circumstances.
(e) Disposal of Shares by Australian resident Shareholders

Disposal of some or all of the Offer Shares held on capital account by Australian resident investors will give rise to a CGT event and investors may become liable to pay CGT if they make a capital gain on disposal, or another CGT event occurs in respect of the Offer Shares.

An investor will be taken to have acquired Offer Shares when these are issued or transferred to the investor and to have disposed of the Offer Shares when the investor transfers (or agree to transfer) the Offer Shares to another person. Taxation law also deems a CGT event to have occurred in some other circumstances as well.

To calculate the capital gain that is subject to tax initially requires the cost base of shares to be subtracted from the consideration (money or property) received from their disposal. If the calculation results in a negative number, then a capital loss has been incurred.

The market value of shares at the time of their disposal may be substituted as consideration if the disposal is for nil or not undertaken on an arm's length dealing basis. In the case of Offer Shares acquired pursuant to the Prospectus, the cost base for CGT purposes will generally be the amount paid for the Offer Shares ($0.40 per Share) plus incidental transaction costs (such as brokerage fees) incurred in selling the shares.

If the Shareholder has also derived capital losses in the income year, or has accumulated capital losses that are deductible, then those losses may be offset against the capital gain derived from the disposal of the shares. A capital loss cannot be offset against ordinary taxable income but may be carried forward and offset against future capital gains. However, utilisation of carried forward capital losses is subject to various loss integrity tests. Consideration of these loss provisions is beyond the scope of this section.

For those investors that are companies, a net capital gain made on the disposal of Offer Shares (after any capital losses are offset) must be included in the company's taxable income and subject to tax at the prevailing general corporate tax rate (generally 30%).

Investors who are either individuals or complying superannuation funds (or another similar form of qualifying entity), and dispose of Offer Shares held for at least 12 months, may be entitled to a CGT discount of 50% and 33% respectively. Companies are not entitled to any discount and special rules apply for trusts.

The net capital gain remaining after permitted offsets and discounts, is added to the investor's other taxable income, and the total amount is then subject to tax at the investor's tax rate.

Where shares are held by a trust (and the trust is not taxed as a company for Australian tax purposes) then a CGT discount of 50% is generally available. When the capital gain is distributed to the beneficiary by the trustee of the trust, the capital gain needs to be grossed up and the relevant beneficiary(s) will need to determine for themselves whether or not they are able to access the CGT discount provisions.

(f) Disposal of Shares by non Australian resident Shareholders

Foreign residents are only subject to CGT on the disposal of taxable Australian property. For tax purposes, Offer Shares will generally only be considered taxable Australian property where the following conditions are satisfied:

(i) the investor owns an interest of 10% or more in the Company; and
(ii) more than 50% of the value of the Company relates to assets that are taxable Australian real property such as land and buildings or interests in land and buildings. For example, leasehold rights over land situated in Australia are considered to be taxable Australian real property.

Based on information contained in the Prospectus regarding the planned operation of the business, Shares are unlikely to be taxable Australian property. As such, foreign residents that dispose of their shares are unlikely to be subject to Australian CGT. However, the circumstances of the company should be reviewed by investors as at the time they dispose of some or all Offer Shares.

(g) Tax File Numbers quotation

It is not compulsory for Australian resident Shareholders to provide the Company with details of their Tax File Number (TFN) or Australian Business Number (ABN). However, a failure to quote a TFN or ABN to the Company will result in the Company being required to withhold and remit tax of 47% from unfranked dividends paid to the relevant Shareholder. The amount withheld in these circumstances should be available as a credit against the investor's tax liability.
(h) **GST and transfer duty**

No GST is applicable to the issue or transfer of the Offer Shares given that, under current law, these transactions are a financial supply for GST purposes. Shareholders may not be entitled to claim full input tax credits in respect of GST paid on costs incurred in connection with the acquisition of shares.

Transfer duty will not be payable on Offer Shares issued pursuant to the Prospectus.

The above tax comments are designed to be general information in nature and do not constitute tax advice. Shareholders should seek professional advice on how the matters considered above apply to them.

11.5 **Information available to Shareholders**

The following documents are available for inspection during normal business hours at the registered office of the Company:

(a) this Prospectus;

(b) the Constitution; and

(c) the consents referred to in section 11.21.

11.6 **Adequacy of capital**

The Directors believe that the Company, at completion of the Offer, will have sufficient working capital to carry out its objectives stated in this Prospectus.

11.7 **Foreign Currency Conversion**

The functional currency of the operating entities in the Group is Chinese Yuan. The historical financial information included in this Prospectus for the financial periods ended 31 December 2014, 2015 and 2016 have been prepared and presented in in Australian dollars using the following average rates:

<table>
<thead>
<tr>
<th>1RMD:AUD</th>
<th>Average for the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-Dec-13</td>
<td>$0.1673</td>
</tr>
<tr>
<td>31-Dec-14</td>
<td>$0.1806</td>
</tr>
<tr>
<td>31-Dec-15</td>
<td>$0.2133</td>
</tr>
<tr>
<td>31-Dec-16</td>
<td>$0.2027</td>
</tr>
</tbody>
</table>

Other amounts have been converted at the spot rate of 0.1921 for the translation from RMB to AUD.

The proceeds of the Offer will be received in AUD, while the Company's functional currency is Chinese Yuan. The Company is not currently hedging against exchange rate fluctuations, and consequently the Company will be at the risk of any adverse movement in the Chinese Yuan to AUD exchange rate between the pricing of the Offer and the closing of the Offer.
11.8 Costs of the Offer

The estimated costs of the Offer are shown in the table below:

<table>
<thead>
<tr>
<th>ESTIMATED EXPENSES ($)</th>
<th>Minimum Subscription $'000</th>
<th>Maximum Subscription $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead manager fees</td>
<td>1,076</td>
<td>1,435</td>
</tr>
<tr>
<td>Legal due diligence</td>
<td>269</td>
<td>269</td>
</tr>
<tr>
<td>ASX listing fees</td>
<td>139</td>
<td>143</td>
</tr>
<tr>
<td>IPO project manager</td>
<td>963</td>
<td>1,074</td>
</tr>
<tr>
<td>Investor relations</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Other Prospectus costs</td>
<td>74</td>
<td>74</td>
</tr>
<tr>
<td>Investigating accountants</td>
<td>77</td>
<td>77</td>
</tr>
<tr>
<td>Tax due diligence</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Design and printing</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Share registry fee</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total cash offer costs (inclusive of GST where applicable)</strong></td>
<td><strong>2,661</strong></td>
<td><strong>3,135</strong></td>
</tr>
</tbody>
</table>

Note: The company has prepaid part of the cash offer costs before 31 December 2016.

11.9 Constitution

Below is a summary of the key provisions of the Company’s Constitution. This summary is not exhaustive, nor does it constitute a definitive statement of a Shareholder’s rights, liabilities and obligations.

(a) Voting rights

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at a general meeting of members every member has one vote on a show of hands and one vote per Share on a poll. Voting may be in person or by proxy, attorney or representative.

(b) Dividends

Subject to the rights of holders of shares issued with any special rights, the Directors may declare a dividend out of profits in accordance with the Corporations Act. The Company may credit or make payment of the dividend by any manner or means as determined by the Directors in their sole and unfettered discretion.

Subject to any special rights or restrictions attached to any Shares, every Dividend on a Share will be declared and paid, if the Share is fully paid, equal to the Dividend paid on each other Share; and if the Share to which a particular Dividend relates is partly paid, or is fully paid but was not fully paid during the whole of the period in which the Dividend is to be paid, that Dividend shall be apportioned.

(c) Capitalisation of profits

Subject to the Listing Rules, the Company may capitalise profits. The capitalisation need not be accompanied by the issue of Shares.

(d) Future issues of securities

The Directors may issue Shares or options over Shares and other securities of the Company. Any Share, option or other security in the Company may be issued with any preferential or special rights or restrictions.

(e) Transfer of Shares

A Shareholder may transfer Shares by a proper transfer effected in accordance with ASX Settlement Operating Rules, an instrument in writing in a form approved by ASX, or any other method prescribed by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules. The Directors may decline to register a transfer of Shares (other than an ASX settlement regulated transfer) where the Corporations Act, Listing Rules or the CS Operating Rules permit or require the Company to do so.
(f) **Share certificates**

A Shareholder entered on the member’s register is entitled without payment to receive a Share certificate in accordance with the Corporations Act. However, the Directors are not obligated to issue share certificates for Shares acquired via a transfer effected under the ASX Settlement Operating.

(g) **Variation of rights**

The rights attaching to classes of Shares may only be varied by the sanction of a special resolution passed at a meeting of Shareholders or with the written consent of holders of three quarters of all classes of those Shares on issue. A special resolution is passed only where approved by at least 75% of all votes cast (and entitled to be cast) on the resolution at the meeting.

(h) **Calls**

The Directors may at any time and at their discretion, make calls on Shareholders for unpaid moneys on their Shares.

The Directors must give Shareholders notice of a call at least 14 days (or any other such period as required by the Listing Rules) before the amount called is due, specifying the time and place of payment. If a call is made, Shareholders are liable to pay the amount of each call by the time and at the place specified on the call notice.

A call is taken to have been made when a Directors’ resolution passes the call. Any amount not paid on the date the amount called is due, may be subject to interest as determined by the Directors.

(i) **Forfeiture and lien**

The Company may forfeit Shares of a Shareholder that fails to pay a call or instalment of a call on or before the day appointed for payment in a notice of forfeiture. Forfeited Shares may be sold or otherwise disposed of by the Directors.

A person whose Shares have been forfeited may still be required to pay the Company all calls and other amounts owing in respect of the forfeited Shares (including interest) if the Directors so determine.

The Company has a first and paramount lien on every Share (other than a fully paid share) for all money called or payable at a fixed time in respect of that Share and such lien extends to all dividends, rights and other distributions from time to time declared paid or made in respect of that Share.

The Company’s may sell any Shares on which it has a lien, on whatever terms it thinks fit.

(j) **General meetings and notices**

Each Shareholder, Director, secretary and auditor is entitled to receive notice of, and to attend, general meetings for the Company. Subject to the Listing Rules and the provisions of the Corporations Act relating to special resolutions and agreements for shorter notice, Shareholders will be entitled to receive at least 28 days’ prior written notice of any proposed general meeting.

Three Shareholders must be present to constitute a quorum for a general meeting and no business may be transaction at any meeting unless a quorum is present.

Shareholders may requisition meetings in accordance with the Corporations Act.

(k) **Election and retirement of Directors**

There must be a minimum of 3 Directors and a maximum of 10 Directors.

At every annual general meeting one third of the Directors or, if their number is not 3 nor a multiple of 3, then the number nearest one third, and any other Director not in such one third who has held office for 3 years or more, must retire from office. A retiring Director is eligible for re election. These retirement rules do not apply to the managing director or directors removed from their office at a general meeting.

The Company in a general meeting may by resolution and the Directors may at any time appoint any person to be a director. Any Director so appointed holds office only until the next annual general meeting but is eligible for re election at that meeting.
Remuneration of Directors

Each Director shall be paid for their services as Director as decided by the Directors but the total amount provided to non-executive Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company in a general meeting (currently $500,000). The remuneration of a Director must not include a commission on, or a percentage of, profits or operating revenue.

Directors are also entitled to be paid all travelling and other expenses they incur in attending to the Company's affairs, including attending, participating in and returning from general meetings or Board meetings, or meetings of any committee engaged in the Company's business.

Interests of Directors

A Director who derives profit in respect of a matter in which they have a material personal interest is not liable to account to the Company for any profit so derived, provided they give notice to the other Directors and have not contravened the Constitution or the Corporations Act.

Indemnity

Except as a result of conduct involving a lack of good faith or wilful breach of duty to the Company, every officer or wholly owned subsidiary of the Company shall be indemnified against any liability incurred by that person in respect of any act or omission whatsoever and howsoever occurring or in any proceedings in which judgement is given in that person's favour.

Winding up

If the Company is wound up and there remains a surplus, the liquidator may, with the sanction of a special resolution of the Shareholders:

(i) divide the assets of the Company among the members;
(ii) for that purpose, set a value as the liquidator considers fair on any property to be so divided; and
(iii) decide how the division is to be carried out as between the members or different classes of members.

Shareholder liability

As the Shares under the Prospectus are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

Alteration to the Constitution

The Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. At least 28 days' written notice specifying the intention to propose the resolution as a special resolution must be given.

Listing Rules

If the Company is admitted to trading on the Official List of ASX, then despite anything in the Constitution, if the Listing Rules prohibit an act being done, the act must not be done. Nothing in the Constitution prevents an act being done that the Listing Rules require to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the Constitution to contain a provision and it does not contain such a provision, the Constitution is deemed to contain that provision. If the Listing Rules require the Constitution not to contain a provision and it contains such a provision, the Constitution is deemed not to contain that provision. If a provision of the Constitution is inconsistent with the Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

11.10 Dividend Policy

No assurances can be given by the Company to the payment of future dividends, as this will depend on, amongst other things, the general business environment, the Group's level of profitability, the Group's funding requirements and the Group's financial and taxation position at the time.

11.11 Litigation

So far as the Company is aware, as at the date of this Prospectus, the Company and its subsidiaries are not involved in any legal proceedings of a material nature and the Directors are not aware of any other legal proceedings pending or threatened against the Company and its subsidiaries.
11.12 Expiry Date

No securities will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

11.13 Rights and Liabilities attaching to the Offer Shares

The rights and liabilities attaching to Shares (including the Offer Shares) are set out in the Constitution and summarised in Section 11.9 of this Prospectus.

11.14 No prospective financial forecasts

The Directors have considered the matters outlined in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

Notwithstanding the above, this Prospectus includes, or may include, forward looking statements including, without limitation, forward looking statements regarding the Company's financial position, business strategy, and plans and objectives for its business and future operations (including development plans and objectives), which have been based on the Company's current expectations. These forward looking statements are, however, subject to known and unknown risks, uncertainties and assumptions that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Company's present and future business strategies and environment in which the Company will operate in the future.

Matters not yet known to the Company or not currently considered material to the Company may impact on these forward looking statements. These statements reflect views held only as at the date of this Prospectus. In light of these risks, uncertainties and assumptions, the forward looking statements in this Prospectus might not occur. Investors are therefore cautioned not to place undue reliance on these statements.

11.15 Electronic Prospectus

The Prospectus is available in electronic form at www.zqpst.com. Any person receiving the Prospectus electronically will, on request, be set a paper copy by the Company free of charge during the Offer Period.

The Application Form may only be distributed attached to a complete and unaltered copy of the Prospectus. The Application Form included with this Prospectus contains a declaration that the investor has personally received the complete and unaltered Prospectus before completing the Application Form.

The Company will not accept a completed Application Form if it has reason to believe that the Applicant has not received a complete paper copy or electronic copy of the Prospectus or if it has reasonable to believe that the Application Form or electronic copy of the Prospectus has been altered or tampered with in any way.

While the Company believes it is extremely unlikely that during the period of the Offer the electronic version of the Prospectus will be tampered with or altered in any way, the Company cannot give any absolute assurance that this will not occur. Any investor in doubt about the validity or integrity of an electronic copy of the Prospectus should immediately request a paper copy of the Prospectus directly from the Company or a financial adviser.

11.16 Privacy

The Company collects information about each Applicant provided on an Application Form for the purposes of processing the Application and, if the Application is successful, to administer the Applicant's security holding in the Company. By submitting an Application Form, each Applicant agrees that the Company may use the information provided by an Applicant on the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, the Company's related body corporates, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and regulatory authorities.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register. The information contained in the Company's public register must remain there, even if that person ceases to be a Shareholder. Information contained in the Company's register is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.
If you do not provide the information required on the Application Form, the Company may not be able to accept or
process your Application. An Applicant has the right to gain access to the information that the Company holds about that
person, subject to certain exceptions under law. A fee may be charged for access. Such requests must be made in
writing to the Company’s registered office.

11.17 Shareholding qualifications

Directors are not required under the Constitution to hold any Shares.

11.18 Shareholders

As at the date of this Prospectus, the Company has the following Shareholders:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>GdWill Trading Co. Ltd¹</td>
<td>91,944,113</td>
<td>81.73%</td>
</tr>
<tr>
<td>Aoton Trading Co., Ltd²</td>
<td>6,207,680</td>
<td>5.52%</td>
</tr>
<tr>
<td>Honoas Trading Co., Ltd³</td>
<td>3,948,207</td>
<td>3.51%</td>
</tr>
<tr>
<td>Jianqin Guo⁴</td>
<td>549,700</td>
<td>0.49%</td>
</tr>
<tr>
<td>Jie Zhao⁴</td>
<td>200,803</td>
<td>0.18%</td>
</tr>
<tr>
<td>Xianhua Bai⁴</td>
<td>499,498</td>
<td>0.44%</td>
</tr>
<tr>
<td>Yongping Xu⁴</td>
<td>499,498</td>
<td>0.44%</td>
</tr>
<tr>
<td>Zhanqiao Zhang⁴</td>
<td>449,297</td>
<td>0.40%</td>
</tr>
<tr>
<td>Huichao Zhao⁴</td>
<td>499,498</td>
<td>0.44%</td>
</tr>
<tr>
<td>Junmei Ma⁴</td>
<td>599,900</td>
<td>0.53%</td>
</tr>
<tr>
<td>Limin Liu⁴</td>
<td>499,499</td>
<td>0.44%</td>
</tr>
<tr>
<td>Lipu Liu⁴</td>
<td>2,100,904</td>
<td>1.87%</td>
</tr>
<tr>
<td>Junwei Shi⁴</td>
<td>750,502</td>
<td>0.67%</td>
</tr>
<tr>
<td>Eagle IG Hong Kong Limited⁵</td>
<td>3,750,000</td>
<td>3.33%</td>
</tr>
</tbody>
</table>

1  Held 70% by Director Pingfan Jia and 30% by Director Lei Wang.
2  Held by former Director, Bai Jinhong.
3  26% held by Director Xianjun Yuan, remainder held by former Directors Xin Zhang and Yixun Xu.
4  Shares issued upon conversion of loans - see Section 10.6.
5  Issued in consideration of consultancy services by Eagle IG Hong Kong Limited to Piston Zhaoqing.

11.19 Escrow requirements under the ASX Listing Rules

Subject to the quotation of the Company’s securities on ASX, certain Shares may be classified by ASX as restricted
securities and may be required to be held in escrow for up to 24 months from the date of quotation. During the period in
which these securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on
the ability of a Shareholder to dispose of his or her Shares in a timely manner.

The Company will announce to the ASX full details (quantity and duration) of the Shares required to be held in escrow
prior to the Shares commencing trading on the ASX.

11.20 Interests of experts and advisers

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional,
advisory or other capacity in connection with the preparation or distribution of this Prospectus, nor any firm in which any
of those persons is or was a partner nor any company in which any of those persons is or was associated with, has now,
or has had, in the 2 year period ending on the date of this Prospectus, any interest in:

(a) the formation or promotion of the Company; or

(b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the
Company or the Offer; or

(c) the Offer.
Colin Biggers & Paisley Lawyers has acted as legal adviser to the Company in relation to the Offer and the Placement and has been involved in undertaking due diligence enquiries and providing legal advice to the Offer. Colin Biggers & Paisley Lawyers will be paid an estimated fee of $220,000 (excluding GST) for these services.

Grant Thornton Corporate Finance Pty Ltd has acted as Investigating Accountant to the Offer and has prepared the Investigating Accountant's Report in section 8. Grant Thornton Corporate Finance Pty Ltd will be paid an estimated fee of $70,000 (excluding GST) for these services. Grant Thornton Corporate Finance Pty Ltd is associated with Grant Thornton Audit (see below).

Grant Thornton Audit Pty Ltd (GT Audit) has acted as auditor to the Company. GT Audit is associated with, the Investigating Accountant (see above). GT Audit will be paid an estimated fee of $220,000 for these services. Grant Thornton Corporate Finance Pty Ltd is associated with Grant Thornton Audit.

BusinessMinds Australia have prepared an independent market report on behalf of the Company which forms the basis of section 3. BusinessMinds will be paid an estimated fee of $12,000 (GST exclusive) for its work in connection with the market report.

Beijing Dentons (Guangzhou) Law Firm (Dentons) has acted as legal adviser to the Company in relation to the PRC laws and regulations governing the Group. They have also been involved in undertaking due diligence enquiries and providing legal advice to the Offer. Dentons will be paid an estimated fee of $92,000 for these services.

Nixon Peabody CWL Lawyers (Hong Kong) has acted as legal adviser to the Company in relation to Hong Kong laws and regulations governing the Group. Nixon Peabody CWL will be paid an estimated fee of $5,000 for these services. Automic Pty Ltd will act as the share registry to the Company for the Offer. Automic will be paid $2,000 (excluding GST) for these services.

AGC Capital Securities Pty Ltd has acted as Corporate Advisor to the Company and as Lead Manager to the Offer. For these services, AGC Capital Securities will be paid $1,897,000 (excluding GST) based on the minimum offer.

Eagle IG Hong Kong Limited has provided consultancy services to Piston Jingtong relating to the Offer. In consideration of these services, the Company has issued 3,750,000 Shares to Eagle IG Hong Kong Limited with a fair value of $1,100,000.

11.21 Consents and disclaimers

Each of the persons referred to in this section:

(a) has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn their written consent:

(i) to be named in the Prospectus in the form and context which it is named; and

(ii) where applicable, to the inclusion in this Prospectus of the statement(s) and/or reports (if any) by that person in the form and context in which it appears in this Prospectus;

(b) has not caused or authorised the issue of this Prospectus;

(c) has not made any statement in this Prospectus or any statement on which a statement in this Prospectus is based, other than specified below;

(d) to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant Thornton Corporate Finance Pty Ltd</td>
<td>Investigating Accountant and the inclusion of its Investigating Accountant's Report in this Prospectus.</td>
</tr>
<tr>
<td>Grant Thornton Audit Pty Ltd</td>
<td>Auditor of the Group and in relation to its audit of the financial statements for the years ended 31 December 2014, 2015 and 2016 and review of the interim financial statements for the period ended 30 June 2017 and the comparative period 30 June 2016 as set out in Section 7.</td>
</tr>
<tr>
<td>Colin Biggers &amp; Paisley Pty Ltd</td>
<td>Legal adviser in relation to the Offer on Australian law matters (to avoid doubt, excluding all Chinese legal matters)</td>
</tr>
<tr>
<td>Name</td>
<td>Role</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>BusinessMinds Australia</td>
<td>Industry adviser and the use of its independent market report in this Prospectus.</td>
</tr>
<tr>
<td>Automic Pty Ltd</td>
<td>Share Registry.</td>
</tr>
<tr>
<td>Dentons Law Offices, LLP (Guangzhou)</td>
<td>People’s Republic of China legal adviser in relation to the Offer on Chinese legal matters.</td>
</tr>
<tr>
<td>Nixon Peabody CWL Lawyers, Hong Kong</td>
<td>Hong Kong legal adviser in relation to the Offer on Hong Kong legal matters.</td>
</tr>
<tr>
<td>AGC Capital Securities Pty Ltd</td>
<td>Corporate Adviser to the Group and Lead Manager</td>
</tr>
</tbody>
</table>

No entity or person referred to above in Section 11.21 has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as stated above. Each of the persons and entities referred to above in this Section 11.21 has not authorised or caused the issue of this Prospectus, does not make any offer of New Shares and expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus except as stated above in this Section 11.21.

In addition, as permitted by ASIC Class Order 2016/72 this Prospectus may include or be accompanied by certain statements fairly representing a statement by an official person, or from a public official document or a published book, journal or comparable publication.
12. Directors' Responsibility and Consent

This Prospectus is issued by the Company. Each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

Dated: 5 September 2017

Mr Pingfan Jia
Director and Chief Executive Officer
GLOSSARY
Glossary

Where the following terms are used in this Prospectus they have the following meanings:

$ or AU$  Australian dollars unless otherwise stated.
AASB  Australian Accounting Standards Board.
ABN  Australian Business Number.
ACN  Australian Company Number.
AEST  Australian Eastern Standard Time.
AGC Capital Securities  AGC Capital Securities Pty Ltd ABN 36 168 909 260 (Australian Financial Services Licence No. 481024).
Applicant  A person or entity who submits a valid Application Form pursuant to this Prospectus.
Application  A valid application made on an Application Form to subscribe for Shares under the Offer.
Application Form  The form accompanying or attached to this Prospectus by which an Applicant may apply for Shares.
Application Money  Money received by the Company under the Offer, being the Offer Price multiplied by the number of Shares applied for.
ASIC  The Australian Securities and Investments Commission.
ASX  The ASX Limited ACN 98 008 624 691 or the securities exchange operated by it (as the case requires).
ASX Listing Rules or Listing Rules  The official listing rules of ASX.
ASX Settlement  ASX Settlement Pty Ltd ABN 49 008 504 532.
ASX Settlement Operating Rules  The ASX Settlement Operating Rules, being the operating rules of the settlement facility provided by ASX Settlement.
Board  The board of Directors of the Company.
China  The People’s Republic of China (unless the context indicates otherwise, excluding Hong Kong and Macau).
Closing Date  5pm AEST on 10 November 2017 or an amended date or time as determined by the Board.
Colin Biggers & Paisley Lawyers  Colin Biggers & Paisley Pty Ltd.
Company  Piston Machinery Ltd ACN 618 786 333, the Group’s holding company incorporated in New South Wales.
Completion  The issue of the Shares to Successful Applicants.
Constitution  The constitution of the Company.
Corporate Adviser  AGC Capital Securities.
Director  A director of the Company.
EBIT  Earnings before interests and taxation.
EBITDA  Earnings before interest, taxes, depreciation and amortisation.
Executive Director  A Director appointed as an executive director of the Company.
Existing Shareholders  Shareholders of the Company as at the date of this Prospectus.
Exposure Period  Has the meaning given in “Important Notices”.
FY  Financial year, ending on 31 December of any year, and the two digits following FY indicate which year (for example FY2017 means the financial year ending 31 December 2017).
Grant Thornton  Grant Thornton Audit Pty Ltd.
Group  the consolidated group comprising the Company and its wholly owned and controlled subsidiaries.
GST

The meaning given in section 195.1 of the A New Tax System (Goods and Services) Tax Act 1999 (Cth).

Holding Statement

A holding statement of Shares.

Hong Kong Companies Ordinance

Companies Ordinance (Chapter 622 of the laws of Hong Kong), as amended from time to time.

IAR

the investigating accountant's report prepared by the Investigating Accountant.

IFRS

International Financial Reporting Standards.

IPO

Initial public offering.

Investigating Accountant

Grant Thornton Corporate Finance Pty Ltd.

Lead Manager

AGC Capital Securities.

Listing

The admission of the Company to the Official List of ASX.

Listing Date

The date that the Company is admitted to the Official List of ASX.

Maximum Subscription

The maximum aggregate subscription amount under the Offer, being $20,000,000.

Minimum Subscription

The minimum aggregate subscription amount under the Offer, being $15,000,000.

New Share

Share(s) to be issued under the Offer.

Non-Executive Director

A Director appointed as a non-executive director of the Company.

NPAT

Net profit after taxes.

Offer

the offer of New Shares made under this Prospectus.

Offer Period

the period between 12 September 2017 and 10 November 2017, unless changed by the Directors.

Offer Price

$0.40 per Share.

Official Quotation

The quotation of the Shares on ASX.

Offer Shares

Shares offered pursuant to the Offer.

Official List

The official list of entities that ASX has admitted and not removed.

Opening Date

12 September 2017

Operating Subsidiaries

Piston Zhaoqing, Piston Jingtong and Piston Anhui.

Option

an option to subscribe for, and be issued, a Share.

Piston

Piston Machinery Ltd ACN 618 786 333.

Piston Zhaoqing

Zhaoqing Piston Machinery Co., Ltd.

Piston Jingtong

Zhaoqing Jingtong Machinery Co., Ltd.

Piston Anhui

Anhui Piston Machinery Technology Co., Ltd.

PRC

The People's Republic of China (unless the context indicates otherwise, including Hong Kong and Macau).

Prospectus

this prospectus and includes the electronic prospectus.

Share

a fully paid ordinary share in the Company.

Shareholder

a registered holder of Shares.

Share Registry or Registry

Automic Pty Ltd.

Successful Applicant

An Applicant who is issued Shares under the Offer.
APPENDIX 1

SIGNIFICANT ACCOUNTING POLICIES
Appendix 1 - Significant Accounting Policies

(a) Principle of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Zhaoqing Piston Machinery Co. Ltd. A controlled entity is any entity that Zhaoqing Piston Machinery Co. Ltd has the power to control the financial and reporting policies of the entity so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 24 to the financial statements. All controlled entities have a December financial year end.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year, where controlled entities have entered the Group during the year, their operating results have been included from the date control was obtained.

All inter-company balances and transactions between entities in the consolidated Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

(b) Foreign Currency Translation

Functional and presentation currency

The consolidated financial statements are presented in Australian Dollars (AUD). The functional currency of the main operating subsidiary, Zhaoqing Piston Machinery Co. Ltd, is Chinese Yuan (RMB).

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations

In the Group’s financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the RMB are translated into RMB upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into RMB at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into RMB at the closing rate. Income and expenses have been translated into RMB at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

(c) Income Tax

The income tax expense for the year comprises current income tax expense.

Current tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.
Deferred tax

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (benefit) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property, Plant and equipment are measured at cost less depreciation and impairment losses.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

The depreciation rates used for each class of depreciable assets are:

<table>
<thead>
<tr>
<th>Class of Fixed Asset</th>
<th>Depreciation Rate</th>
<th>Residual Value</th>
<th>Depreciation Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and office equipment</td>
<td>3 – 10 years</td>
<td>5%</td>
<td>Straight line</td>
</tr>
<tr>
<td>Motor vehicle</td>
<td>4 years</td>
<td>5%</td>
<td>Straight line</td>
</tr>
<tr>
<td>Buildings</td>
<td>50 years</td>
<td>5%</td>
<td>Straight line</td>
</tr>
</tbody>
</table>

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the profit or loss.
(e) **Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis on normal operating capacity. Costs are assigned on the basis of weighted average costs.

(f) **Leases**

**Finance leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**Leases of land**

Land use rights represents up-front payments to relevant government authorities for long-term interests for usage of land. Land use rights have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation of land-use rights is calculated using the straight line method to allocate the cost of land use-rights over its estimated useful life.

Land use rights have been presented within ‘Land-use rights’ in the statement of financial position.

(g) **Employee Benefits**

Provision is made for the Group’s liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled wholly within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on high quality corporate bonds with terms to maturity that match the expected timing of cash flows.

(h) **Cash and Cash Equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) **Revenue**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue from sale of goods is recognised when the Group has transferred significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Government grants and subsidies are recognised upon receipt from the government. All revenue is stated net of the amount of value added tax (VAT).
(j) **Borrowings**

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption being recognised in the statement of profit and loss and other comprehensive income over the period of the borrowing on an effective interest basis.

(k) **Value Added Tax (VAT)**

Revenues, expenses and assets are recognised net of the amount of VAT, except where the amount of VAT incurred is not recoverable from the Local Taxation Office. In these circumstances, the VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of VAT.

Cash flows are presented in the statement of cash flows on a gross basis, except for the VAT component of investing and financing activities, which are disclosed as operating cash flows.
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Offer Application Options:

**Option A: Apply Online and Pay Electronically (Recommended)**

- **Apply online:**
  - Pay Electronically: Applying online allows you to pay electronically, for Australian residents through BPAY®. Overseas applicants in permitted jurisdictions can also pay electronically through an electronic funds transfer.
  - Get in first, it’s fast and simple: Applying online is very easy to do, it eliminates any postal delays and removes the risk of it being potentially lost in transit.
  - It’s Secure and Confirmed: Applying online provides you with greater privacy over your instructions and is the only method which provides you with confirmation that your application has been successfully processed.

To apply online, simply scan the barcode to the right with your tablet or mobile device or you can enter the following link into your browser:


**Option B: Standard Application and Pay by Cheque**

Enter your details below, attach cheque and return in accordance with the instructions on the reverse.

**PLEASE FOLLOW THE INSTRUCTIONS TO COMPLETE THIS APPLICATION FORM (SEE REVERSE) AND PRINT CLEARLY IN CAPITAL LETTERS USING BLACK OR BLUE PEN.**

1. **Number of Shares applied for**
   - Application payment (multiply box 1 by $0.40 per share)
   - Applications must be for a minimum of 5,000 Shares (A$2,000), and thereafter in multiples of 1,000 Shares (A$400)

2. **Applicant name(s) and postal address - refer to naming standards for correct form of registrable title(s) (See overleaf)**
   - Name of Applicant 1
   - Name of Applicant 2 or <Account Designation>
   - Name of Applicant 3 or <Account Designation>
   - Unit / Street Number / Street name or PO Box
   - Suburb/Town
   - State
   - Postcode
   - Country and ZIP Code (if outside Australia)

3. **Contact details**
   - Telephone Number
   - Email Address
   - By providing your email address, you elect to receive all communications despatched by the Company electronically (where legally permissible).

4. **CHESS Holders Only – Holder Identification Number (HIN)**
   - Note: if the name and address details in sections 2 do not match exactly with your registration details held at CHESS, any Shares issued as a result of your Application will be held on the Issuer Sponsored subregister.

5. **TFN/ABN/Exemption Code**
   - Applicant 1
   - Applicant #2
   - Applicant #3
   - If NOT an individual TFN/ABN, please note the type in the box:
     - C = Company; P = Partnership; T = Trust; S = Super Fund
CORRECT FORMS OF REGISTRABLE TITLE
Note that ONLY legal entities can hold Shares. The application must be in the name of a natural person(s), companies or other legal entities acceptable by the Company. At least one full given name and surname is required for each natural person.

<table>
<thead>
<tr>
<th>Type of Investor</th>
<th>Correct Form of Registration</th>
<th>Incorrect Form of Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trusts</td>
<td>Mr John Richard Sample &lt;Sample Family A/C&gt;</td>
<td>John Sample Family Trust</td>
</tr>
<tr>
<td>Superannuation Funds</td>
<td>Mr John Sample &amp; Mrs Anne Sample &lt;Sample Family Super A/C&gt;</td>
<td>John &amp; Anne Superannuation Fund</td>
</tr>
<tr>
<td>Partnerships</td>
<td>Mr John Sample &amp; Mr Richard Sample &lt;Sample &amp; Son A/C&gt;</td>
<td>John Sample &amp; Son</td>
</tr>
<tr>
<td>Clubs/Unincorporated Bodies</td>
<td>Mr John Sample &lt;Food Help Club A/C&gt;</td>
<td>Food Help Club</td>
</tr>
<tr>
<td>Deceased Estates</td>
<td>Mr John Sample &lt;Estate Late Anne Sample A/C&gt;</td>
<td>Anne Sample (Deceased)</td>
</tr>
</tbody>
</table>

INSTRUCTIONS FOR COMPLETING THE FORM
This is an Application Form for Ordinary Fully Paid Shares (‘Shares’) in Piston Machinery Limited (ACN 618 786 33) (Company), made under the terms set out in the Prospectus dated 5 September 2017. The expiry date of the Prospectus is the date which is 13 months after the date of the Prospectus.

The Prospectus contains important information relevant to your decision to invest and you should read the entire Prospectus before applying for Shares. If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by, the Prospectus and any supplementary prospectus (if applicable). While the Prospectus is current, the Company will send paper copies of the Prospectus, and any supplementary prospectus (if applicable) and an Application Form, on request and without charge.

1 Shares applied for - Enter the number of Shares you wish to apply. Your application must be for a minimum of 5,000 Shares (A$2,000). Applications for greater than 10,000 shares must be in multiples of 1,000 Shares (A$400). Enter the amount of the Application Monies. To calculate this amount, multiply the number of Shares applied for by the offer price which is A$0.20.

2 Applicant name(s) and postal address - Note that ONLY legal entities can hold Shares. The application must be in the name of a natural person(s), companies or other legal entities acceptable by the Company. At least one full given name and surname is required for each natural person. You should refer to the table for the correct forms of registrable title(s).

3 Contact Details - Please advise your contact details between 9:00am AEST and 5:00pm AEST should we need to speak to you about your application. You can notify any change to your communication preferences by visiting the registry website – www.automic.com.au

4 CHESS Holders - If you are sponsored by a stockbroker or other participant and you wish to hold shares allotted to you under this Application on the CHESS subregister, enter your CHESS HIN. Otherwise leave the section blank and on allotment you will be sponsored by the Company and a “Securityholder Reference Number” (SRN) will be allocated to you.

5 TFN/ABN/Exemption - If you wish to have your Tax File Number, ABN or Exemption registered against your holding, please enter the details. Collection of TFN’s is authorised by taxation laws but quotation is not compulsory and it will not affect your Application Form.

6 Payment - Unless received from their broker, Applicants under the Offer must lodge their Application Form and Application Monies with the Share Registry by 5.00pm (AEST) on the Closing Date.

BPAY® your payment via internet or phone banking. Please visit our share registry’s website: https://investor.automic.com.au/pistonmachineryltl.html and complete the online application form. All online applicants can BPAY® their payments via internet or phone banking. A unique reference number will be quoted upon completion of the application. Applicants should be aware of their financial institution’s cut-off time (the time payment must be made to be processed overnight) and ensure payment is processed by their financial institution on or before the day prior to the closing date of the offer. BPAY® applications will only be regarded as having been made if payment is received by the registry from your financial institution on or prior to the closing date. It is the applicant’s responsibility to ensure funds are submitted correctly by the closing date and time. You do not need to return any documents if you have made payment via BPAY®.

Your BPAY® reference number will process your payment to your application electronically and you will be deemed to have applied for such securities for which you have paid.

All cheques should be made payable to “Piston Machinery Ltd Offer” and drawn on an Australian bank and expressed in Australian currency and crossed “Not Negotiable”.

Cheques or bank drafts drawn on overseas banks in Australian or any foreign currency will NOT be accepted. Any such cheques will be returned and the acceptance deemed to be invalid. Sufficient cleared funds should be held in your account as your acceptance may be rejected if your cheque is dishonoured. Do not forward cash as receipts will not be issued.

Electronic Funds Transfer (EFT) is available for overseas applicants. Please email your completed Application Form and payment method request to hello@automic.com.au. The registry will then contact you with your unique payment reference number and will outline the procedure for making payment by EFT. Applicants should be aware of their financial institution’s cut-off time. It is the Applicant’s responsibility to ensure funds are submitted correctly by the Closing Date and time.

Applicants who received this Offer from their broker must return their Application Form and Application Monies back to their broker. Any cheque must be made payable to the broker.

LODGELOGMENT INSTRUCTIONS
There is no maximum value of Shares that may be applied for under the Offer. The Company may determine a person to be eligible to participate in the Offer.

The Offer opens at 9.00am (AEST) on 12 September 2017 and is expected to close at 5.00pm (AEST) on 10 November 2017. The Company and the Lead Manager may elect to extend the Offer or any part of it, may be closed at any earlier date and time, without further notice. Applicants are therefore encouraged to submit their Applications as early as possible.

Completed Application Forms and cheques must be

Posted to:  
Piston Machinery Ltd  
C/- Automic  
PO Box 2226  
STRAWBERRY HILLS NSW 2012

Delivered to:  
Piston Machinery Ltd  
C/- Automic  
Level 3, 50 Holt Street  
SURRY HILLS NSW 2010

Hand delivery during business hours only - 9am to 5pm (AEST)

Enquiries in respect of this Share Application Form should be addressed to Automic at 1300 288 664.

Share Application Forms must be received no later than 5.00pm (AEST) 10 November 2017
Company
Piston Machinery Limited

ASX Code: PZM
c/o AGC Capital Securities Pty Ltd
Suite 23.05, One International Towers,
100 Barangaroo Avenue, Sydney NSW 2000
T: 02 8098 1088 (within Australia)
T: +61 2 8098 1088 (outside Australia)
E: enquiry@agccapital.com.au
W: www.zqpst.com

Directors
Dennis Trlin
Non-Executive Chairman
Pingfan Jia
Executive Director and Chief Executive Officer
Lei Wang
Executive Director
Xianjun Yuan
Executive Director
Peter Wong
Non-Executive Director

Company secretary and
Public officer
Keekee Wang

Share Registry
Automic Registry Services
Level 3/50 Holt Street
SURRY HILLS NSW 2010
T: 1300 288 664 (within Australia)
T: +61 2 8098 1088 (outside Australia)
E: hello@automic.com.au
W: www.automic.com.au

Corporate Adviser and Lead Manager
AGC Capital Securities Pty Ltd
Suite 23.05, Level 23, One International Towers Sydney,
100 Barangaroo Avenue, Sydney NSW 2000, Australia
T: 02 8098 1088 (within Australia)
T: +61 2 8098 1088 (outside Australia)
E: enquiry@agccapital.com.au
W: www.agccapital.com.au

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Level 17, 383 Kent Street
Sydney NSW 2000
T: +61 2 8297 2400
E: communications@au.gt.com
W: www.granthornton.com.au

Auditor
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Level 17, 383 Kent Street
Sydney NSW 2000
T: +61 2 8297 2400
E: communications@au.gt.com
W: www.granthornton.com.au

Australian Legal Adviser
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Level 35, 1 Eagle Street
Brisbane Qld 4000
T: 07 3002 8700
E: brent.vanstaden@cbp.com.au
W: www.cbp.com.au

People's Republic of China Legal Adviser
Dentons Law Offices, LLP (Guangzhou)
14th/15th Unit 07-12 Floor, CTF Finance Centre,
6 Zhujiang East Road,
Zhujiang New Town Guangzhou 510623
China
T: +86 20 8527 7000
F: +86 20 8527 7002
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W: www.dentons.com

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F: +852 2521 0220
E: cheng.hoo@nixonpeabodycwl.com
W: www.nixonpeabody.com