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D&G Technology Holding Company Limited
德基科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1301)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the "Board" or the "Directors") of D&G Technology Holding Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019 together with the comparative figures for the previous year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	**2019** *RMB'000*	2018 *RMB'000*
Revenue	*5*	**446,426**	328,155
Cost of sales		**(358,697)**	(230,031)
Gross profit		**87,729**	98,124
Other income and other (losses)/gains, net	*6*	**(359)**	3,240
Distribution costs		**(84,764)**	(60,572)
Administrative expenses		**(75,302)**	(75,290)
Net reversal of/(provision for) impairment losses on financial assets		**34,768**	(24,238)
Operating loss		**(37,928)**	(58,736)
Finance income, net	*7(a)*	**8,853**	9,622
Share of profits of associates		**2,164**	472
Loss before income tax	*7*	**(26,911)**	(48,642)
Income tax (expense)/credit	*8*	**(8,165)**	230
Loss attributable to owners of the Company for the year		**(35,076)**	(48,412)
Loss per share attributable to owners of the Company for the year	*10*		
– basic *(RMB cents)*		**(5.64)**	(7.81)
– diluted *(RMB cents)*		**(5.64)**	(7.81)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	*RMB'000*
Loss for the year	**(35,076)**	(48,412)
Other comprehensive (loss)/income:		
Item that may be reclassified to profit or loss:		
Currency translation differences	**(542)**	3,422
Other comprehensive (loss)/income for the year, net of tax	**(542)**	3,422
Total comprehensive loss attributable to owners of the Company for the year	**(35,618)**	(44,990)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	**2019** **RMB'000**	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**165,245**	189,497
Land use right		**–**	4,965
Intangible assets		**3,809**	2,911
Interests in associates		**54,883**	51,972
Amount due from an associate		**4,670**	–
Deposits and prepayments		**800**	160
Deferred income tax assets		**18,672**	21,646
Total non-current assets		**248,079**	271,151
Current assets			
Inventories	*11*	**271,381**	289,497
Contract assets		**1,514**	–
Trade and bills receivables	*12*	**226,885**	233,965
Amount due from an associate		**5,058**	–
Prepayments, deposits and other receivables		**36,375**	36,629
Pledged bank deposits		**47,413**	65,015
Cash and cash equivalents		**94,912**	64,407
Income tax recoverable		**–**	1,552
Total current assets		**683,538**	691,065
Total assets		**931,617**	962,216

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	**4,912**	4,897
Other reserves		**571,681**	566,476
Retained earnings		**90,294**	125,791
Total equity		**666,887**	697,164
LIABILITIES			
Non-current liabilities			
Borrowings	13	**785**	–
Lease liabilities		**114**	–
Deferred tax liabilities		**3,500**	–
		4,399	–
Current liabilities			
Borrowings	13	**76,766**	60,102
Trade and other payables	14	**148,991**	175,141
Contract liabilities	14	**33,044**	29,809
Lease liabilities		**635**	–
Income tax payable		**895**	–
Total current liabilities		**260,331**	265,052
Total liabilities		**264,730**	265,052
Total equity and liabilities		**931,617**	962,216

NOTES:

1 GENERAL INFORMATION

D&G Technology Holding Company Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and its subsidiaries (together, the "Group") are principally engaged in manufacturing, distribution, research and development and operating lease of asphalt mixing plants and provision of plants finance services.

The Company's shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 May 2015.

These consolidated financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated.

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New standards, amendments to existing standards and interpretation adopted by the Group

The adoption of the following new standards, amendments to existing standards and interpretation are mandatory for the Group's financial year beginning on 1 January 2019.

Standards	Subject
Annual Improvements Project	Annual Improvements 2015 – 2017 Cycle
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting HKFRS 16 "Leases" ("HKFRS 16"). The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 4. Most of the other amendments and interpretation listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and amendments to existing standards not yet adopted

The following new standards and amendments to existing standards have been issued but are not yet effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

Standards	Subject	Effective for the accounting period beginning on or after
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge Accounting	1 January 2020
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The above new standards and amendments to existing standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions. The Group intends to adopt the above new standards and amendments to existing standards when they become effective.

4 IMPACT ON THE ADOPTION OF HKFRS 16

This note explains the impact of the adoption of HKFRS 16 on the Group's consolidated financial statements.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases" ("HKAS 17"). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.6%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments on whether leases are onerous,
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made by applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease".

(ii) Measurement of lease liabilities

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	2,681
Less: discounting effect	(307)
Less: short-term and low-value leases recognised on a straight-line basis as expense	(103)
Lease liabilities recognised as at 1 January 2019	2,271

Lease liabilities recognised as at 1 January 2019	
Of which are:	
Current lease liabilities	1,555
Non-current lease liabilities	716
	2,271

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a modified retrospective basis as if the new rules had always been applied.

(iv) Adjustments recognised in the consolidated statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

Land use right	– decrease by RMB4,965,000
Property, plant and equipment	– increase by RMB7,035,000
Lease liabilities	– increase by RMB2,271,000

Land use right, leasehold land and leased properties with net book values amounted to RMB4,965,000, RMB46,435,000 and RMB2,070,000 respectively representing the right-of-use assets of the Group as at 1 January 2019 were presented within the property, plant and equipment in the consolidated statement of financial position.

The net impact on retained earnings on 1 January 2019 was a decrease of RMB201,000.

The impact on disclosures of segment and loss per share is not significant.

(v) Lessor accounting

The Group leases out its machineries under non-cancellable operating lease arrangements. The lease terms are up to 2 years. The Group has classified these leases as operating leases. The accounting policies applicable to the Group as a lessor in the comparative period are not different from HKFRS 16. The Group is not required to make any adjustments on transition to HKFRS 16 for leases in which it acts as a lessor. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of its revenue.

5 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company who make strategic decisions.

The executive directors of the Company have determined that the Group only has one operating segment which is the sales of asphalt mixing plants, spare parts and modified equipment and leasing of asphalt mixing plants.

Revenue consists of the following:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of asphalt mixing plants	**376,590**	260,979
Sales of spare parts and modified equipment	**40,597**	34,693
Sales of bitumen, bitumen tanks and equipment	**–**	12,853
	417,187	308,525
Revenue from other sources		
Operating lease income of asphalt mixing plants	**29,239**	17,055
Finance lease income	**–**	2,575
	29,239	19,630
	446,426	328,155
Revenue from contracts with customers recognised at a point in time	**417,187**	308,525

(a) Revenue from external customers by country

	2019	2018
	RMB'000	*RMB'000*
People's Republic of China (the "PRC")	**406,603**	267,041
Outside PRC	**39,823**	61,114
	446,426	328,155

(b) Non-current assets

The geographical location of the non-current assets, excluding deferred income tax assets, based on the physical location of the assets is analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
The PRC	**175,396**	196,924
Outside PRC	**54,011**	52,581
	229,407	249,505

(c) Information about major customers

Revenue from a customer contributing over 10% of the total revenue of the Group is as follows:

	2019	2018
	RMB'000	*RMB'000*
Customer A	**45,338**	54,500

Except for Customer A, there were no other customers individually accounted for more than 10% of the Group's revenue for the years ended 31 December 2019 and 2018.

6 OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

	2019	2018
	RMB'000	*RMB'000*
Other income		
Rental income from investment property	**–**	162
Government grants *(Note)*	**940**	1,659
	940	1,821
Other (losses)/gains		
Net loss on disposal of property, plant and equipment	**(478)**	–
Fair value gain on revaluation of investment property	**–**	760
Gain on disposal of subsidiaries	**–**	303
Gain on early termination of leases	**36**	–
Net foreign exchange (loss)/gain	**(700)**	588
Others	**(157)**	(232)
	(1,299)	1,419
	(359)	3,240

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

7 LOSS BEFORE INCOME TAX

Loss before income tax is arrived after crediting/(charging):

(a) Finance income, net

	2019 *RMB'000*	2018 *RMB'000*
Finance cost		
Interest expenses on bank borrowings	**(4,790)**	(2,497)
Interest expenses on lease liabilities	**(71)**	–
Interest expense on other borrowing	**(455)**	–
	(5,316)	(2,497)
Finance income		
Interest income on bank deposits	**1,512**	617
Interest income from an associate	**380**	–
Unwinding discount interest on trade receivables not expected to be settled within one year	**12,277**	11,502
	14,169	12,119
Finance income, net	**8,853**	9,622

(b) Employee benefit expenses (including directors' emoluments)

	2019 *RMB'000*	2018 *RMB'000*
Wages, salaries and allowances	**64,428**	61,714
Pension costs – defined contribution plans	**12,145**	12,433
Share-based payment expenses	**4,245**	3,531
	80,818	77,678

(c) Other items

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories	**290,391**	188,723
Freight and transportation expenses	**15,433**	13,915
Depreciation and amortisation		
– Property, plant and equipment used for operating leases	**9,727**	9,552
– Other property, plant and equipment	**11,699**	9,816
– Land use right	**–**	130
– Intangible assets	**874**	885
(Reversal of)/provision for impairment of trade receivables, net	**(34,768)**	27,931
Reversal of provision for impairment of other receivables	**–**	(3,693)
Provision for impairment of inventories	**27,441**	3,992
Write-off of property, plant and equipment	**489**	1,102
Provision for impairment of property, plant and equipment	**5,870**	–
Operating lease charges	**–**	2,822
Research and development costs	**17,986**	11,884
Auditor's remuneration		
– Audit services	**1,858**	1,686
– Non-audit services	**79**	74
Other expenses	**56,098**	43,634

8 INCOME TAX EXPENSE/(CREDIT)

	2019	2018
	RMB'000	*RMB'000*
Current income tax:		
– PRC corporate income tax	**1,545**	895
– Under/(over) provision in prior years	**146**	(273)
	1,691	622
Deferred income tax	**6,474**	(852)
	8,165	(230)

Numerical reconciliation of income tax expenses/(credits) to prima facie tax payable

	2019	2018
	RMB'000	*RMB'000*
Loss before tax	**(26,911)**	(48,642)
Notional tax on loss before tax, calculated at the rates applicable to the jurisdictions concerned (i)	**(2,940)**	(7,958)
Effect of preferential tax rate (ii)	**275**	321
Tax losses for which no deferred income tax asset was recognised	**2,531**	4,330
Income not subject to tax	**(213)**	(136)
Tax effect of non-deductible expenses	**5,889**	4,823
Additional deduction for qualified research and development expenses (iii)	**(2,023)**	(1,337)
Withholding tax in respect of dividend declared by a subsidiary in the PRC (iv)	**1,000**	–
Withholding tax charged on undistributed earnings of a subsidiary (iv)	**3,500**	–
Under/(over) provision in prior years	**146**	(273)
	8,165	(230)

The change in weighted average applicable tax rates is mainly caused by a change in mix of profit/loss of different group companies which are subject to different tax rates.

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

No provision for Hong Kong profits tax for the subsidiaries incorporated or operating in Hong Kong was made as the subsidiaries did not have assessable profits subject to Hong Kong profits tax (2018: Nil).

No provision for Singapore, India and Pakistan income tax was made for the subsidiaries incorporated in these countries, as the subsidiaries did not have assessable profits subject to Singapore, India and Pakistan income tax (2018: Nil).

The Group's PRC subsidiaries are subject to the PRC corporate income tax rate of 25% (2018: 25%).

(ii) A wholly-owned subsidiary of the Company, Langfang D&G Machinery Technology Company Limited ("Langfang D&G"), is qualified as a "high and new technology enterprise" under the PRC corporate income tax law and relevant regulations and is entitled to a preferential income tax rate of 15% (2018: 15%).

(iii) Under the PRC corporate income tax law and its relevant regulations, a 75% (2018: 75%) additional tax deduction is allowed for qualified research and development expenses.

(iv) The withholding tax rate was 5% on the remittance of dividends from the subsidiary in the PRC during the year and unremitted earnings of the subsidiary.

9 DIVIDENDS

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019 (2018: Nil).

10 LOSS PER SHARE

(a) Basic

The calculation of basic loss per share is based on the loss attributable to owners of the Company and on the weighted average number of ordinary shares in issue during the year.

	2019	2018
Loss attributable to owners of the Company *(RMB'000)*	**(35,076)**	(48,412)
Weighted average number of ordinary shares in issue	**621,489,000**	620,238,000
Basic loss per share *(expressed in RMB cents per share)*	**(5.64)**	(7.81)

(b) Diluted

Diluted loss per share for the years ended 31 December 2019 and 2018 were the same as the basic loss per share as potential ordinary shares arising from share options were not treated as dilutive as the conversion to ordinary shares would not increase the loss per share.

11 INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**99,825**	119,808
Work in progress	**159,601**	167,791
Finished goods	**11,955**	1,898
	271,381	289,497

The cost of inventories recognised as expense and included in "cost of sales" amounted to approximately RMB290,391,000 (2018: RMB188,723,000). The inventories as at 31 December 2019 and 2018 were stated at the lower of cost and net realisable value. The provision for inventories of RMB27,441,000 (2018: RMB3,992,000) has been included in "cost of sales" in the consolidated statement of profit or loss for the year ended 31 December 2019.

12 TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables from third-parties *(Notes (a) and (b))*	**306,504**	359,868
Loss allowance	**(86,329)**	(121,097)
Discounting impact	**(14,541)**	(12,104)
	205,634	226,667
Bills receivables	**21,251**	7,298
Total trade and bills receivables	**226,885**	233,965

(a) Trade receivables under credit sales arrangements are due for payment in accordance with specific payment terms as agreed with individual customers on a case-by-case basis, subject to the fulfilment of conditions as stipulated in the respective sales contracts. Credit terms up to 18 months were granted to the Group's customers.

(b) The ageing analysis of the trade receivables as at the end of the year based on date of revenue recognition is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 1 year	**166,803**	175,332
1 to 2 years	**63,643**	79,782
2 to 3 years	**41,163**	52,233
Over 3 years	**34,895**	52,521
	306,504	359,868

13 BORROWINGS

Borrowings repayable within one year or repayable beyond one year but with repayment on demand clause are analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
Secured bank loans	**72,258**	60,102
Other borrowing *(Note)*	**5,293**	–
	77,551	60,102

Note:

During the year ended 31 December 2019, the Group obtained other borrowing of RMB8,800,000 from a third party by entering into an agreement pursuant to which the Group sold a machinery to the third party at a consideration of RMB8,800,000 and leased the machinery from the buyer for next 24 months at monthly rental of approximately RMB396,000. Upon the end of the lease term, the buyer is required to transfer the aforementioned machinery to the Group. The amount of RMB8,800,000 was regarded as a collateralised other borrowing as the transfer of machinery from the Group to the buyer was not qualified as a sale under HKFRS 15. As at 31 December 2019, the other borrowing amounted to RMB5,293,000 (2018: Nil).

14 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**54,412**	59,377
Bills payables	**49,883**	89,782
	104,295	149,159
Amount due to a related party	**350**	338
Other payables and accruals	**44,346**	25,644
	44,696	25,982
Total trade and other payables	**148,991**	175,141
Contract liabilities	**33,044**	29,809
	182,035	204,950

The ageing analysis of trade and bills payables as at the end of the year based on invoice date is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**66,863**	137,640
After 3 months but within 6 months	**21,834**	7,578
After 6 months but within 1 year	**13,896**	3,255
Over 1 year	**1,702**	686
	104,295	149,159

15 SHARE CAPITAL

Authorised:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares
		HK$
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	2,000,000,000	20,000,000

Issued and fully paid:

	Number of shares	Nominal value of ordinary shares	Nominal value of ordinary shares	Share Premium
	('000)	*HK$'000*	*RMB'000*	*RMB'000*
At 1 January 2018, 31 December 2018 and 1 January 2019	620,238	6,203	4,897	419,617
Employee share options scheme:				
Shares issued in respect of exercise of share options	1,720	17	15	1,282
At 31 December 2019	621,958	6,220	4,912	420,899

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2019, the Group continued to be a leading market player in the road construction and maintenance machinery industry, focusing on medium to large-scale asphalt mixing plants. The Group provided one-stop customised solutions to customers in the People's Republic of China ("PRC", "China" or "Mainland China") and overseas markets, specialising in the research and development, design, manufacturing and sale of conventional and recycling asphalt mixing plants.

Business Review

The Group offered a full range of asphalt mixing plants from small to large-scale to cater to the needs of different customers. The asphalt mixing plants can be divided into two main categories: (i) conventional hot-mix asphalt mixing plant ("Conventional Plant"); and (ii) recycling hot-mix asphalt mixing plant ("Recycling Plant"). The asphalt mixtures produced by the asphalt mixing plants of the Group can be used in the construction and maintenance of all levels of roads and highways. The Recycling Plants of the Group, in addition to producing regular asphalt mixtures, can also produce recycled asphalt mixtures which contain a combination of reclaimed asphalt pavement and new materials such as bitumen, aggregates and fillers. The use of Recycling Plants achieves the objectives of resources recycling and cost saving in the production of asphalt mixtures.

During the year, the Group continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were forty-six (2018: thirty-two) sales contracts of asphalt mixing plants completed by the Group during the year and the asphalt mixing plants were used in major highway construction and maintenance projects such as Gaoguang Expressway (高廣高速), Wenlai Expressway (文萊高速公路), G109 Jingzang Expressway Tibet section (G109線京藏高速西藏段), Xiaoxianhong Expressway (孝仙洪高速公路), etc. Due to the increase in number of road construction projects in China, revenue from sales of asphalt mixing plants increased by approximately 44.3% during the year, whereas, the sales of asphalt mixing plants accounted for approximately 84.4% (2018: 79.5%) of the total revenue of the Group. Though the total revenue of the Group increased by 36.0% to RMB446,426,000, the Group's gross profit margin decreased to 19.7% (2018: 29.9%) which was primarily due to (1) increase in demand for customised asphalt mixing plants resulting in an increase in manufacturing costs; (2) impairment of inventories amounted to RMB27,441,000 (2018: RMB3,992,000) as a result of slow moving raw materials and work in progress; and (3) impairment loss of property, plant and equipment of RMB5,870,000 was made during the year (2018: Nil) as a result of the continuing operating loss from operating lease business.

During the year, the demand for customised asphalt mixing plants increased because of stringent environmental protection requirements in the PRC. In order to meet the specific requirements of individual customers, additional manufacturing costs for the customisation of asphalt mixing plants incurred and resulted in the decrease in gross profit margin. Besides, the increase in demand for customised asphalt mixing plants also led to a change of design of standard components resulting in a provision of slow moving raw materials and work in progress made during the year. The Group has reviewed the ageing of inventories and developed procedures to utilise the slow moving inventories and expected the ageing of inventories could be improved gradually. In order to improve profitability, the Group has increased its selling price and imposed stringent controls to minimise its manufacturing costs. It is expected that the gross profit margin can be improved gradually in coming years. On the other hand, the Group made a gross loss in the operating lease business since 2018 which was mainly due to the delay in public-private partnership projects in China and hence there were inadequate production of asphalt mixtures of the plants leased to its customers. Since the rental income of the plants was based on the production output of asphalt mixtures, the decrease in production output directly affected the rental income of the Group. As a result, the rental income was not able to cover the fixed overhead of the plants and resulted in a loss making position. In order to scale down the operating lease business, the Group has disposed five asphalt mixing plants deployed to operating lease business during the year. As at 31 December 2019, there were twelve plants under operating lease business (31 December 2018: sixteen). The Group expected that loss of the operating lease business would be narrowed down next year and turned back to a profitable business once the optimal size of operating lease business is achieved.

Management has been cautiously monitoring the collection of trade receivables in order to improve the collection cycle. During the year, management continued to put effort in receivable collection and also tightened its credit controls on new and existing customers. The Group has recovered certain long overdue trade receivables of which provision for impairment loss has been made in prior years and re-assessed the recoverability of its trade receivables. Since there are increased number of road construction projects in China and funding in place, the overall settlement from customers has been improved. The Group therefore made a reversal of provision for impairment loss of trade receivables of approximately RMB34.8 million during the year. Nevertheless, the Group shall strictly adhere to its credit policy and continuously strengthen its internal control procedures so as to improve the receivable collection cycle and shorten the debtors' turnover days.

The Group continued to expand its business and entered into potential markets along the "Belt and Road" countries. Out of the forty-six sales contracts of asphalt mixing plants completed during the year, five were completed in overseas countries including Russia, India and Kazakhstan. Although the overseas road construction projects along the "Belt and Road" countries slowed down during the year, the Group has signed one sales contract with a customer in Bahrain which is expected to be completed in the first half of 2020. As at 31 December 2019, two asphalt mixing plants were exported to Pakistan for the development of operating lease business in Pakistan. To further penetrate the markets in the developing countries, the Group has also developed a compact mobile asphalt plants series to the product line. Together with the established overseas network, the Group expects to participate in more upcoming road construction projects along the "Belt and Road" countries.

Development of Upstream and Downstream Asphalt Related Business

Asphalt mixture is the essential asphalt road construction material. The Group is committed to the development of asphalt related business along the supply chain with an aim to broaden income sources and raise profits. In order to leverage the synergies of local expertise, the Group has been exploring potential strategic partners to develop the production and sale of asphalt mixtures business.

Establishment of Sichuan RTDL

On 20 July 2018, the Group's wholly owned subsidiary, Langfang De Feng New Materials Technology Limited* ("Langfang De Feng"), has entered into a shareholders' agreement with Sichuan Xin De Yuan Trading Limited* ("Sichuan Xin De Yuan"), an independent third party, to establish a new company, Sichuan Rui Tong De Long New Materials Technology Limited* ("Sichuan RTDL") for the purpose of establishment of asphalt mixture plant station in Sichuan. Pursuant to the shareholders' agreement, the registered share capital of Sichuan RTDL amounted to RMB10 million of which Sichuan Xin De Yuan and Langfang De Feng should contribute RMB6 million and RMB4 million, respectively, within 4 years from the date of incorporation of Sichuan RTDL. Sichuan RTDL has obtained its business license on 14 August 2018. In order to commence the operation of Sichuan RTDL, both shareholders have partially contributed its capital to Sichuan RTDL. As at 31 December 2019, the Group has contributed capital of RMB1 million to Sichuan RTDL and recorded its investment as "Interests in associates". The Group expected that with the leverage of local expertise of Sichuan Xin De Yuan, the establishment of Sichuan RTDL would push forward the application of asphalt mixture plant station with local government in Sichuan.

On 7 March 2020, Langfang De Feng has entered into a supplemental shareholders' agreement with Sichuan Xin De Yuan to increase the registered share capital of Sichuan RTDL from RMB10 million to RMB12 million. Sichuan Xin De Yuan and Langfang De Feng should contribute RMB6 million and RMB6 million, respectively.

* *For identification purpose only*

Development of combustion technology

During the year, the Group continued to conduct research on the combustion technology in order to develop the business of manufacturing and sale of burner combustion equipment and the provision of related technical support services. The burner combustion equipment can be applied in a wide spectrum including asphalt mixing plants, furnace, heating system, etc. As at 31 December 2019, thirty-one (31 December 2018: twenty-six) patents of combustion technology were registered and eight patents were pending registration.

Research and Development

To maintain its position as a leading market player in the road construction and maintenance machinery industry focusing on medium to large-scale asphalt mixing plants, the Group continued to maintain its strong research and development capabilities. As at 31 December 2019, the Group had one hundred and nine registered patents in the PRC (of which four were invention patents) and twenty-six software copyrights. In addition, twenty-five patents were pending registration as at 31 December 2019.

Marketing and Awards

The Group places great emphasis on the marketing and promotion of its brands, products and services offered and leverages different online platforms, including global trading B2B online platforms, mobile websites, LinkedIn and the WeChat platform to offer better services to customers and establish a better brand image in both the PRC and overseas markets.

During the year, the Group participated in various promotional events and technical seminars such as the China Hefei Construction Technical Seminar held in Hefei, the IIBT and CON-MINE 2019 held in Indonesia, the Bauma CTT Russia 2019 held in Russia and the Belt and Road Summit 2019 held in Hong Kong.

In March 2019, the Group was awarded the “HKQAA Green Finance Certification Mark” which was organised by the Hong Kong Quality Assurance Agency. In May 2019, the Group was awarded as an “EcoChallenger” and “3 Years + EcoPioneer” in the BOCHK Corporate Environmental Leadership Awards which was organised by the Federation of Hong Kong Industries and Bank of China (Hong Kong). The awards are recognition of the Group’s contribution to the promotion of environmental protection. In September 2019, the Group was awarded the Industry Cares 2019 by the Federation of Hong Kong Industries. In December 2019, the Group was awarded the “Hong Kong Green Awards 2019 – Corporate Green Governance Award” which was organised by the Green Council. The Group has won this award for four consecutive years. It is a recognition of the Group’s commitment to green governance.

Ms. Glendy Choi, the Group's chief executive officer, was invited to be the speaker at a College Lecture of the Youth Training Program organised by Hong Kong Young Industrialists Council on 8 March 2019. During the forum, Ms. Glendy Choi shared her experience and view with the college students on how to succeed in the asphalt mixing plant industry and how the Group seized the opportunities under the "Belt and Road Initiative". The forum received keen and positive responses.

Outlook

In view of the ongoing US-China trade war and recent coronavirus epidemic, we believe the PRC government will continue adopting policies to stimulate the local economy and increase the fixed asset investment. Besides, in light of growing awareness on environmental protection among the road construction and maintenance companies and the PRC government's emphasis on reducing pollution from industrial sector, we expect the demand for our recycling and environmentally-friendly products continues to grow in the long run. There will be increasing demand for the recycling asphalt plants as well as the modification services of adding recycling and environmental protection functions to existing plants. The Group will further promote green technology innovation and continue to improve its competitive advantage so as to reinforce its leading position in the market.

Investment in infrastructure overseas, for the PRC government, is a way of building up strategic partnerships with countries along the "Belt and Road" region. Though there was a slowdown in the "Belt and Road" activities in 2019, it is expected that the "Belt and Road Initiatives" shall continue once the US-China trade war has cooled down. The Group is honored to participate in the major expressway construction projects of the "China-Pakistan Economic Corridor" and shall grasp the business opportunities arising from "Belt and Road" construction projects led by Chinese state-owned enterprises.

Since the technologies of the Group's asphalt mixing plants are widely adopted in countries except the United States of America (the "US"), the Group does not export its products to the US. The US-China trade war does not have direct impact on the Group's performance during the year. However, the Group expects that the ongoing trade war may affect the economies of some of the "Belt and Road" countries which will indirectly affect the Group's export businesses.

The Group expects that the local demand for asphalt mixing plants shall gradually increase as the PRC government has injected more funds into domestic infrastructure projects to soften the possible blow to the economy from the US-China trade war and the coronavirus epidemic. The Group has also entered into agency agreements with various direct marketing agencies in India and expected that more sales orders can be obtained from India in the near future. The management also expects the customers shall accelerate the settlements going forward as more road construction projects and funding shall be in place in China. With its established overseas network and high-technology asphalt mixing plants, the Group is prepared to grasp the opportunities of upgrading asphalt mixing plant technology and equipment in countries such as India and in the ASEAN region. To utilise the Group's wide clientele base of over 500 asphalt plants spreading across the whole PRC and 31 nations overseas, the Group is also exploring business opportunities in developing business upstream into the road construction and maintenance materials supply chain and downstream into the asphalt mixture provision. The Group will however manage its business development strategies cautiously due to the relatively volatile international economic and political condition.

Financial Review

During the year ended 31 December 2019, the Group recorded a total revenue of RMB446,426,000 (2018: RMB328,155,000), representing an increase of approximately 36.0% as compared to last year. The gross profit of the Group decreased from RMB98,124,000 for the year ended 31 December 2018 to RMB87,729,000 for the year ended 31 December 2019, representing a decrease of approximately 10.6%. The overall gross profit margin decreased by 10.2 percentage points from 29.9% to 19.7%. The Group recorded a net loss attributable to owners of the Company of RMB35,076,000 compared with a net loss of RMB48,412,000 last year.

	2019	2018	Change
	RMB'000	*RMB'000*	
Sales of asphalt mixing plants	**376,590**	260,979	44.3%
Sales of spare parts and modified equipment	**40,597**	34,693	17.0%
Operating lease income of asphalt mixing plants	**29,239**	17,055	71.4%
Sales of bitumen, bitumen tanks and equipment	**–**	12,853	-100.0%
Finance lease income	**–**	2,575	-100.0%
	446,426	328,155	36.0%

Sales of Asphalt Mixing Plants

	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue	**376,590**	260,979	44.3%
Gross profit *(Note)*	**106,229**	87,110	21.9%
Gross profit margin	**28.2%**	33.4%	-5.2pp
Number of contracts	**46**	32	14
Average contract value	**8,187**	8,156	0.4%

Revenue from the sales of asphalt mixing plants increased as a result of the increase in number of contracts completed. The increase in number of contracts completed was mainly due to the increase in road construction projects in China being partially offset by the decrease in overseas sales as a result of the slowdown of overseas road construction activities. The gross profit margin decreased by 5.2 percentage points to 28.2% during the year was mainly due to the increase in manufacturing costs as a result of increase in demand for customised asphalt mixing plants to meet the stringent environmental protection requirements in the PRC.

Note: Impairment of inventories of RMB27,441,000 was made for the year ended 31 December 2019 (2018: RMB3,992,000) and charged to the "Cost of sales". The gross profit of the sales of asphalt mixing plants presented above has excluded the provision for impairment of inventories for analysis purpose. The comparative figures have been restated to conform to the current year's presentation.

By Types of Plants

	2019	2018	Change
	RMB'000	*RMB'000*	
Recycling Plant			
Revenue	**147,015**	180,735	-18.7%
Gross profit	**46,529**	61,053	-23.8%
Gross profit margin	**31.6%**	33.8%	-2.2pp
Number of contracts	**13**	19	-6
Average contract value	**11,309**	9,512	18.9%
Conventional Plant			
Revenue	**229,575**	80,244	186.1%
Gross profit	**59,700**	26,057	129.1%
Gross profit margin	**26.0%**	32.5%	-6.5pp
Number of contracts	**33**	13	20
Average contract value	**6,957**	6,173	12.7%

Revenue from the sales of Recycling Plants decreased by 18.7% which was mainly due to the decrease in the number of contracts completed and the decrease was partially offset by increase in the average contract value during the year. The gross profit margin decreased by 2.2 percentage points to 31.6% during the year. The increase in the average contract value was mainly due to relatively more high capacity Recycling Plants sold as compared to last year.

Revenue from the sales of Conventional Plants increased by 186.1% primarily because of the increase in the number of contracts as well as the increase in the average contract value during the year. In order to boost the local economy, the PRC government has accelerated more new road construction projects during the year. Since the Conventional Plants required shorter time of commissioning, there was an increase in demand of Conventional Plants during the year. The gross profit margin decreased by 6.5 percentage points during the year mainly due to the increase in manufacturing costs as a result of the increase in demand for customised asphalt mixing plants.

By Geographical Location

	2019	2018	Change
	RMB'000	*RMB'000*	
PRC			
Revenue	**344,480**	225,552	52.7%
Gross profit	**98,074**	77,636	26.3%
Gross profit margin	**28.5%**	34.4%	-5.9pp
Number of contracts	**41**	26	15
Average contract value	**8,402**	8,675	-3.1%
Overseas			
Revenue	**32,110**	35,427	-9.4%
Gross profit	**8,155**	9,474	-13.9%
Gross profit margin	**25.4%**	26.7%	-1.3pp
Number of contracts	**5**	6	-1
Average contract value	**6,422**	5,905	8.8%

Revenue from the PRC sales increased primarily because of the increase in the number of contracts completed and the increase was partially offset by the decrease in the average contract value. The decrease in gross profit margin by 5.9 percentage points to 28.5% during the year was mainly due to the increase in demand for customised asphalt mixing plants which required higher manufacturing costs.

Revenue from the overseas sales decreased mainly because of the decrease in the number of contracts completed. The gross profit margin decreased by 1.3 percentage points to 25.4% was mainly due to all asphalt mixing plants sold during the year were 3000 model series or below which have lower gross profit margin.

Sales of Spare Parts and Components and Modified Equipment

	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue	**40,597**	34,693	17.0%
Gross profit	**16,460**	13,091	25.7%
Gross profit margin	**40.5%**	37.7%	2.8pp

The Group sold spare parts and components for the asphalt mixing plants to its customers as value-added services. The Group also sold modified equipment, including modifying the Conventional Plants, installing key components with recycling functions, upgrading control systems and other customised services.

The revenue from sales of spare parts and components amounted to RMB22,075,000 (2018: RMB23,310,000). The revenue from sales of modified equipment amounted to RMB18,522,000 (2018: RMB11,383,000). The sales of spare parts and components remained relatively stable and the increase in revenue from modified equipment was mainly due to the increase in the number of customers demanded for modification of Conventional Plants. The gross profit margin increased by 2.8 percentage points during the year was mainly due to improvement in gross profit margin of sales of spare parts and components to 45.0% (2018: 36.3%).

Operating Lease Income of Asphalt Mixing Plants

The Group offered operating lease of asphalt mixing plants directly to its customers which generally need asphalt mixing plants on a project basis. The lease contracts entered were generally with the provisions on rental per tonne and minimum production quantity commitment.

Revenue from operating lease of asphalt mixing plants amounted to RMB29,239,000 during the year (2018: RMB17,055,000). The increase in revenue by 71.4% was primarily because of the increase in the total volume of productions as compared with last year. During the year, the Group recorded a gross loss for its operating lease business of approximately RMB7,519,000 (2018: RMB3,771,000). The gross loss was mainly because of the delay in road construction projects of the Group's operating leasing customers. The rental income generated by the operating lease contracts were not able to cover the fixed overheads, including but not limited to staff costs and depreciation charged during the year. In view of the continuing loss of the operating lease business, the Group has made an impairment loss of RMB5,870,000 during the year (2018: Nil). As at 31 December 2019, twelve asphalt mixing plants (2018: sixteen) were held for operating lease business. In order to scale down the operating lease business, the Group disposed five asphalt mixing plants deployed to operating lease business during the year. Management will continue to reduce the number of asphalt mixing plants for operating lease business to an optimum scale and to improve the operating lease project quality by strengthening the control of contract review and implementation.

Sales of Bitumen, Bitumen Tanks and Equipment

The Group considered the supply of bitumen, bitumen tanks and equipment as auxiliary services to its customers developing along the "Belt and Road" countries. For the year ended 31 December 2018, the Group completed two contracts of bitumen tanks and equipment supply to customers in Pakistan with total contract value of approximately RMB7,436,000 and also sourced and supplied bitumen to customers in Pakistan with a contract value of approximately RMB5,417,000. No such contracts were signed during the year.

Other Income and Other (Losses)/Gains, Net

During the year, other income and other (losses)/gains, net mainly represented net exchange gains arising from trading transactions and translation of pledged bank deposits and government grants. The decrease was mainly due to the increase in net foreign exchange loss to RMB0.7 million (2018: exchange gain of RMB0.6 million).

Distribution Costs

Distribution costs mainly consisted of staff costs of our sales and marketing staff, distribution fees to our distributors, freight and transportation expenses, and marketing expenses. Distribution costs represented about 19.0% (2018:18.5%) of revenue of the Group for the year ended 31 December 2019. Increase in distribution costs was mainly due to the increase in sales of asphalt mixing plants through distributors during the year.

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses, and legal and professional fees. During the year, the administrative expenses slightly increased by approximately RMB12,000 was mainly due to the net effect of the decrease in legal and professional fee; the increase in research and development expenses and the increase in share-based payment expenses.

Net Reversal of/(Provision for) Impairment Losses on Financial Assets

The amount represented the net reversal of impairment losses on trade receivables of RMB34.8 million (2018: impairment losses on trade receivables of RMB27.9 million and reversal of provision of impairment of other receivable of RMB3.7 million). The reversal of impairment losses was mainly due to the settlement of long overdue trade receivables during the year. Management shall continue to put effort to recover the long overdue trade receivables and gradually reverse the provision for impairment losses on trade receivables.

Share of Profit of Associates

The amount represented the share of the profit of Topp Financial Leasing (Shanghai) Co., Ltd*("Shanghai Topp") after the completion of the disposal of equity interests in Shanghai Topp on 25 July 2018 of RMB2,041,000 and share of profit of an associate company, Sichuan RTDL, of RMB123,000. For details of the disposal of equity interest in Shanghai Topp, please refer to the Company's announcement dated 4 May 2018. For details of the establishment of Sichuan RTDL, please refer to the section headed "Establishment of Sichuan RTDL" above.

Finance Income, Net

Finance income, net mainly included bank interest income and interest income on unwinding discounted trade receivables offset by interest expenses on interest-bearing bank borrowings. The net finance income during the year was mainly due to the increase in interest income on unwinding discounted trade receivables.

Income Tax (Expense)/Credit

Income tax expense for the year ended 31 December 2019 mainly resulted from the profits tax incurred by a PRC subsidiary of the Company which is a "high and new technology enterprise" entitled to a preferential tax rate of 15%, and the deferred income tax expenses of RMB6,474,000 which was mainly resulted from the decrease in deferred tax assets recognised and the withholding tax provided for the unremitted earnings of a PRC subsidiary of the Company.

* *For identification purpose only*

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company amounted to approximately RMB35.1 million for the year ended 31 December 2019 compared with approximately RMB48.4 million for the year ended 31 December 2018. The loss for the year was mainly due to the decrease in gross profit, increase in distribution costs after the net effect of the reversal of impairment loss of trade receivables, provision for slow moving inventories and the increase in income tax expenses as discussed above.

Working Capital Management

Net current assets of the Group amounted to RMB423,207,000 (31 December 2018: RMB426,013,000) with a current ratio of 2.6 times (31 December 2018: 2.6 times) as at 31 December 2019.

Inventories decreased by RMB18,116,000 from RMB289,497,000 as at 31 December 2018 to RMB271,381,000 as at 31 December 2019. Inventory turnover days was 285 days for the year ended 31 December 2019, representing a decrease of 118 days as compared to 403 days for the year ended 31 December 2018. The decrease in inventories was mainly due to the provision for slow moving raw materials and work in progress primarily resulted from the customised design of asphalt mixing plants required by customers. The decrease in inventory turnover days was mainly because of the increase in finished goods delivered and accepted by customers during the year.

Trade and bill receivables decreased by RMB7,080,000 from RMB233,965,000 as at 31 December 2018 to RMB226,885,000 as at 31 December 2019. Trade and bill receivables turnover days was 188 days for the year ended 31 December 2019, representing a decrease of 161 days as compared to 349 days for the year ended 31 December 2018. The decrease in trade and bill receivables was primarily due to the net reversal of impairment loss of RMB34.8 million provided during the year. The decrease in trade and bill receivables turnover days during the year was primarily due to (1) the improvement in overall settlement of long overdue trade receivables; (2) the increase in deposits placed by customers during the year; and (3) more timely settlement from PRC customers for the sales contracts entered into during the year. The Group will continue to cautiously monitor the trade receivables collection process so as to improve the collection cycle.

Trade and bill payables decreased by RMB44,864,000 from RMB149,159,000 as at 31 December 2018 to RMB104,295,000 as at 31 December 2019. Trade and bill payables turnover days was 129 days for the year ended 31 December 2019, representing a decrease of 118 days as compared to 247 days for the year ended 31 December 2018. The decrease in trade and bill payables and turnover days was mainly due to the increase in settlement to suppliers during the year as the Group recovered its long overdue trade receivables as discussed above.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and facilities granted by its principal bankers. The treasury policies and objectives of the Group are to lower finance costs while enhancing returns on financial assets under a prudent and conservative approach.

As at 31 December 2019, the Group had cash and cash equivalents of RMB94,912,000 (31 December 2018: RMB64,407,000) and pledged bank deposits of RMB47,413,000 (31 December 2018: RMB65,015,000). In addition, the Group had interest-bearing bank borrowings of RMB72,258,000 (31 December 2018: RMB60,102,000). The Group's cash and cash equivalents, pledged bank deposits and borrowings were mostly denominated in Renminbi, Hong Kong dollars and US dollars. The borrowings were mainly arranged on a floating rate basis. The gearing ratio, calculated as total borrowings divided by equity attributable to the owners of the Company, amounted to 11.5% (31 December 2018: 8.6%).

During the year ended 31 December 2019, the Group recorded a net cash generated from operating activities of RMB29,903,000 (2018: RMB63,178,000). Net cash used in investing activities amounted to RMB7,903,000 (2018: RMB35,393,000) for the year ended 31 December 2019. Net cash generated from financing activities for the year ended 31 December 2019 amounted to RMB8,961,000 (2018: net cash used in financing activities RMB9,034,000).

Capital Commitments and Contingent Liabilities

The Group's capital commitments for purchase of property, plant and equipment at the end of the year are as follows:

	At 31 December 2019	At 31 December 2018
	RMB'000	*RMB'000*
Contracted for	**2,320**	3,030
Authorised but not contract for	**–**	–

Certain customers of Langfang D&G financed their purchases of the Group's plants through finance leases provided by third-party leasing companies and Shanghai Topp. Under the leasing arrangements, Langfang D&G provided guarantee to the third-party leasing companies and Shanghai Topp that in the event of customer default, the third-party leasing companies and Shanghai Topp have the rights to demand Langfang D&G to repay the outstanding lease payments due from the customers for the repossession of the leased plants. As at 31 December 2019, the Group's maximum exposure to such guarantees was approximately RMB76,769,000 (2018: RMB40,219,000).

Pledge of Assets

As at 31 December 2019, property, plant and equipment of RMB45,647,000 (31 December 2018: RMB46,524,000), land use right of RMB4,835,000 (31 December 2018: RMB4,965,000) and bank deposits of RMB47,413,000 (31 December 2018: RMB65,015,000) were pledged for borrowings and bill payables of the Group.

Foreign Exchange Risk

The reporting currency of the Group was Renminbi. The Group was exposed to foreign exchange risk through sales and purchases which were denominated in a foreign currency including US dollars and Euros. The appreciation or depreciation of Renminbi against these foreign currencies would increase or decrease the price of the Group's products which were sold to overseas markets and might bring negative or positive impact on the Group's export sales. On the other hand, the appreciation or depreciation of Renminbi would also decrease or increase the cost of sales of the Group in respect of the purchases of raw materials from overseas. The management has continuously monitored the level of exchange rate exposure and shall adopt financial hedging instruments for hedging purpose when necessary. The Group did not use any financial instruments for hedging purpose for the year ended 31 December 2019.

Significant Investments and Material Acquisitions or Disposals

During the year ended 31 December 2019, the Group did not have any significant investments or material acquisitions or disposals.

EVENT AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the world. As at the date of this announcement, the Group has resumed its operations, no customers of the Group have cancelled their orders and raw materials supply has resumed to normal level. In early 2020, due to the restriction of transportation in China and fourteen days quarantine period applied in certain provinces, the Group has experienced difficulties to arrange the logistics for goods delivery to some of its customers in certain provinces in China. Apart from the difficulties in logistic arrangement, certain job sites of the customers of the Group have not resumed operations which directly affected the commissioning of our asphalt mixing plants. In this regard, it is expected that certain customers will delay the acknowledgement of implementation of our asphalt mixing plants and the Group has to defer the timing of recognition of revenue. The Group expects the restriction of transportation in China shall be gradually released and its customers' job sites shall resume operations as soon as possible once the COVID-19 outbreak in China become more controllable. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

USE OF PROCEEDS

Net proceeds from the global offering of the Company were approximately HK$334.4 million (equivalent to approximately RMB263.9 million), after deducting the underwriting commissions and other listing expenses. As at 31 December 2019, all the proceeds have been utilised.

	Original allocation	Revised allocation as at 1 March 2017	Utilised amount as at 31 December 2019	Unutilised amount as at 31 December 2019
	RMB million	*RMB million*	*RMB million*	*RMB million*
Expansion of the manufacturing facilities				
Acquisition of land	39.6	–	–	–
Development and construction of the manufacturing facilities	65.9	31.5	31.5	–
Purchase of equipment for the manufacturing facilities	26.4	7.2	7.2	–
Research and development	52.8	52.8	52.8	–
Development of new business	26.4	72.0	72.0	–
Expansion of the sales and distribution networks and promotional activities	26.4	26.4	26.4	–
Working capital and general corporate purposes	26.4	74.0	74.0	–
	263.9	263.9	263.9	–

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had approximately 436 (2018: 453) employees. The total staff costs for the year ended 31 December 2019 amounted to approximately RMB80,818,000 (2018: RMB77,678,000).

The remuneration policy of the Group was based on performance of employees, market conditions, business demands and expansion plans. The Group offered different remuneration packages to the employees based on their positions, which includes salaries, discretionary bonuses, contributions to pension schemes, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. The Group also provided training to employees on a regular basis. In accordance with the relevant requirements, the Group made contributions to pension and provided other employees benefits.

The Group has adopted a share option scheme pursuant to which employees and Directors may be granted options to subscribe for shares of the Company as incentives or rewards for their service rendered to the Group. No option has been granted during the year ended 31 December 2019. During the year ended 31 December 2018, the Company granted 5,100,000 share options to its employees and 18,000,000 share options to the Directors.

DIVIDENDS

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019 (2018: Nil).

ANNUAL GENERAL MEETING

The 2020 annual general meeting ("2020 AGM") will be held on Friday, 29 May 2020, and the notice of the 2020 AGM will be published and despatched in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2020 AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 25 May 2020.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the year ended 31 December 2019, the Company, in the opinion of the Directors, complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

SUSTAINABILITY

Under the "Belt and Road initiative", vast opportunities arise for the development of infrastructural facilities. These facilities connect communities, promote economic progress, and cultivate ideas and cultural exchanges. In light of this spirit of connectivity, and seizing the opportunity to partake in the "Belt and Road initiative", the Group wishes to connect its sustainable business model to the stakeholders.

The sustainability report (the "Sustainability Report") of the Group demonstrated the integration of environmental, social and governance considerations in its business approach. The innovative technology and sustainable products carry a strong message: with every segment of road paved with asphalt mixtures from our asphalt mixing plants, we leave an imprint of sustainability. The Sustainability Report will be published on the website of Hong Kong Exchanges and Clearing Limited and the website of the Company in due course, which provides the sustainability performance of the Group for the year ended 31 December 2019, and sets out the sights and plans of the Group for the future.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Specific enquiry was made to all the Directors and all the Directors confirmed that they complied with the Model Code throughout the year ended 31 December 2019.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has an audit committee (the "Audit Committee") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control systems. The Audit Committee comprises four members, namely Mr. O'Yang Wiley (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson. All of them are independent non-executive Directors. The final results of the Group for the year ended 31 December 2019 have been reviewed by the Audit Committee.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the reporting year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This final results announcement is published on the website of Hong Kong Exchanges and Clearing Limited and the website of the Company.

The 2019 annual report will also be published on the website of Hong Kong Exchanges and Clearing Limited and the website of the Company and will be despatched to the shareholders of the Company in due course.

By order of the Board
D&G Technology Holding Company Limited
Choi Hung Nang
Chairman

Hong Kong, 27 March 2020

As at the date of this announcement, the executive directors of the Company are Mr. Choi Hung Nang, Ms. Choi Kwan Li, Glendy, Mr. Choi Hon Ting, Derek, Mr. Liu Tom Jing-zhi and Mr. Lao Kam Chi; the non-executive directors of the Company are Mr. Chan Lewis and Mr. Alain Vincent Fontaine; and the independent non-executive directors of the Company are Mr. O'Yang Wiley, Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson.