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D&G TECHNOLOGY

D&G TECHNOLOGY HOLDING COMPANY LIMITED

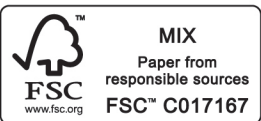
<INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY>

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2019 ANNUAL REPORT





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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Choi Hung Nang (*Chairman*)
Ms. Choi Kwan Li, Glendy (*Chief Executive Officer*)
Mr. Choi Hon Ting, Derek
Mr. Liu Tom Jing-zhi
Mr. Lao Kam Chi

Non-Executive Directors

Mr. Chan Lewis
Mr. Alain Vincent Fontaine

Independent Non-Executive Directors

Mr. Law Wang Chak, Waltery (*resigned on 1 May 2019*)
Mr. O'Yang Wiley (*appointed on 1 May 2019*)
Mr. Li Zongjin
Mr. Lee Wai Yat, Paco
Mr. Fok Wai Shun, Wilson

Audit Committee

Mr. Law Wang Chak, Waltery (*Chairman*) (*resigned on 1 May 2019*)
Mr. O'Yang Wiley (*Chairman*) (*appointed on 1 May 2019*)
Mr. Lee Wai Yat, Paco
Mr. Li Zongjin
Mr. Fok Wai Shun, Wilson

Remuneration Committee

Mr. Fok Wai Shun, Wilson (*Chairman*)
Ms. Choi Kwan Li, Glendy
Mr. Law Wang Chak, Waltery (*resigned on 1 May 2019*)
Mr. O'Yang Wiley (*appointed on 1 May 2019*)

Nomination Committee

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

Risk Management Committee

Ms. Choi Kwan Li, Glendy (*Chairman*)
Mr. Liu Tom Jing-zhi
Mr. Law Wang Chak, Waltery (*resigned on 1 May 2019*)
Mr. O'Yang Wiley (*appointed on 1 May 2019*)
Mr. Fok Wai Shun, Wilson
Mr. Tsang Chin Pang

Company Secretary

Mr. Tsang Chin Pang

Authorised Representatives

Ms. Choi Kwan Li, Glendy
Mr. Tsang Chin Pang

Registered Office

Cricket Square,
Hutchins Drive, PO Box 2681,
Grand Cayman, KY1-1111,
Cayman Islands

Principal Place of Business in Hong Kong

7/F, Hing Lung Commercial Building,
68-74 Bonham Strand, Sheung Wan,
Hong Kong

Principal Place of Business in the PRC

No.12 Yinghua Road,
Yongqing Industrial Park,
Yongqing County, Langfang City,
Hebei Province,
PRC

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 54 Hopewell Centre,
183 Queen's Road East,
Hong Kong

Cayman Islands Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
PO Box 2681,
Grand Cayman,
KY1-1111,
Cayman Islands

Auditor

PricewaterhouseCoopers
Certified Public Accountant and Registered PIE Auditor

Legal Advisor

MinterEllison LLP

Principal Bankers

Industrial Bank Co., Ltd.
KBC Bank N.V.
Nanyang Commercial Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

Company Website

www.dgtechnology.com

FIVE YEAR FINANCIAL SUMMARY

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Results					
Revenue	446,426	328,155	447,927	321,449	390,027
Gross Profit	87,729	98,124	170,625	126,934	165,408
(Loss)/profit attributable to owners of the Company for the year	(35,076)	(48,412)	21,157	(28,499)	30,788
Assets, Liabilities and Equity					
Total assets	931,617	962,216	1,027,947	1,017,223	974,505
Total liabilities	(264,730)	(265,052)	(287,131)	(281,294)	(212,239)
Total Equity	666,887	697,164	740,816	735,929	762,266

CHAIRMAN'S STATEMENT



Dear Shareholders,

I am pleased to present the annual report of D&G Technology Holding Company Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") for the year ended 31 December 2019 (the "year").

During the year, the ongoing US-China trade war continued to cast a doubt over the global economy and the political tension also affected the infrastructure development along the "Belt and Road" countries. Fixed asset investment in the People's Republic of China (the "PRC", "China" or "Mainland China") increased 5.4 percent year-on-year to RMB55.15 trillion in 2019. Driven by China's urbanization, the road construction industry in China has also been growing steadily.

Apart from the ongoing US-China trade war, the recent outbreak of coronavirus also adversely affects the economy of China. In order to stabilise the economic growth, it is expected that the PRC government will stimulate the economy by increasing the investment in large-scale infrastructure projects in the coming years. We believe that the outlook for the infrastructure sector in China will be promising in the coming years.

Fixed asset investment is always an effective and a direct way in fostering economic development. According to the "Outline for Building China's Strength in Transport" released by the Communist Party of China Central Committee,

the future vision of China's transport sector is to build an internationally highly competitive transport system by mid of the century. Continuous investments in road construction and maintenance are expected to sustain the industry's growth. Being one of the leading market players in the road construction and maintenance machinery industry, we foresee that there will be tremendous opportunities coming around for our Group.

As year 2020 is the final year of the 13th Five Year Plan, the PRC government is expected to intensify its efforts in building the transportation system to boost the local economic growth. With such a strong determination, the Minister of Transport of the PRC announced an investment of over RMB1.8 trillion for the construction of new expressways in 2020. Meanwhile, the Chinese central government is keen to promote the Yangtze River Delta region into a world-class economic zone and an investment of over RMB70 billion was announced for the construction of highways and river transport in Anhui, a major province located in the Yangtze River Delta region. Moreover, the construction of the Beijing-Xiong'an Highway was also scheduled to commence in 2020, which is one of the major infrastructures connecting Beijing, Tianjin and Xiong'an New Area. The provincial governments in the Greater Bay area are also determined to speed up the construction of transportation networks connecting the south-western part of China to the Pearl River Delta area in the coming years.



With continuous innovation and its pursuit of excellence, Langfang D&G Machinery Technology Company Limited ("Langfang D&G"), a wholly-owned subsidiary of the Group, has been ranked in the "China Top 30 Construction Machinery Manufacturers" for eight consecutive years starting in 2011, and also ranked as one of the "World's Top 100 (Plus 50) Construction Machinery Manufacturers" and the number one among all of those professional asphalt mixing plants manufacturers.

Being one of the key manufacturers of asphalt mixing plants, we continue to see the potentials and considerable needs from upstream and downstream asphalt related businesses. The Group has been working closely with potential strategic partners to develop road construction and maintenance materials and asphalt mixture businesses with an aim to broaden its income sources and to raise profits on the long run.

Also, the Group places great emphasis on the enhancement of research and development ("R&D") of its products. Its cutting-edge technology allows it to stay competitive and to remain a leading market player throughout the years. The Group will continue to put efforts to enhance its R&D capabilities to diversify its business portfolio through co-operation with strategic partners who possess local expertise in the market.

The Group is always dedicated to raising environmental protection awareness in the society. The Group has supported and cooperated with the Green Council since 2015, and is one of the founding members of the Green Tech Alliance as well as of the Sustainable Procurement Charter, working towards being a role model for sustainable procurement with reference to ISO20400 with a vision to help Hong Kong into becoming a world-class green city. The Group's perseverance and efforts in green governance have been awarded with the "Hong Kong Green Awards 2019" in the division of "Corporate Green Governance Award – Management System".

2019 marked the twentieth year since the establishment of Langfang D&G and we are thankful to have been able to overcome all the challenges we encountered in the past 20 years and to have become one of the leading players, focusing on asphalt mixing plants, in the road construction and maintenance industry. Last but not least, I, on behalf of the board of directors of the Company (the "Board" or the "Directors"), would like to express our sincere gratitude to the management team and staff for their dedication, and to our shareholders and investors for their trust and support of the Group.

Choi Hung Nang
Chairman

27 March 2020

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 PRC 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 DISCUSSION AND ANALYSIS

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.

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.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB'000	2018 RMB'000	Change
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%
Finance lease income	–	2,575	-100%
	446,426	328,155	36.0%

Sales of Asphalt Mixing Plants

	2019 RMB'000	2018 RMB'000	Change
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%

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB'000	2018 RMB'000	Change
Recycling Plants			
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 Plants			
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.

MANAGEMENT DISCUSSION AND ANALYSIS

By Geographical Location

	2019 RMB'000	2018 RMB'000	Change
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 RMB'000	2018 RMB'000	Change
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%).

MANAGEMENT DISCUSSION AND ANALYSIS

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 into with the customers 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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 bills 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 bills 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 bills receivables was primarily due to the net reversal of impairment loss of RMB34.8 million provided during the year. The decrease in trade and bills 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 bills 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 bills 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 bills 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.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

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 11.6% (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 RMB'000	At 31 December 2018 RMB'000
Contracted for	2,320	3,030
Authorised but not contracted 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 bills 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Environmental Policy

The Group aims to develop itself into a green company by connecting with the nature, and recognises the impact on the environment and the natural resources in neighboring communities. The Group operates in an environmentally-friendly manner to promote and achieve sustainable development. Its environmental policies and measures reflect its commitment to minimising the environmental impact of its operations. The policies are guided by the following principles: clean production, energy saving, pollution prevention, and continuous improvement. This includes setting consumption targets for energy and resources, analysing processes, as well as formulating management measures to reduce energy and resources consumption to a reasonable level.

Currently, the Group complies with all applicable laws and regulations that have a significant impact on the Group while integrating environmental considerations into the business. The Group also follows the requirements and guidance of the national standard for environmental management systems for continual improvement.

The Group strives to be more consciously aware of the environmental impact of its business decisions and mitigates as much environmental impact as possible during its production process. Its commitment is demonstrated by its preventative and reduction measures. The Group seeks to continue its effort through a progressive and systematic approach and it will continue its effort to be fully aware of its environmental impact, to be a good corporate citizen, and to continue developing the Group in a sustainable manner.

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2019 and up to the date of this Annual Report, to the best knowledge of the Company, the Group has complied with all the relevant laws and regulations in Mainland China and Hong Kong which have a significant impact on the business and operations of the Group, and there is no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Relationships with Stakeholders

The Group aims to align its business strategies with its stakeholders' expectations and concerns. To better understand those expectations and concerns, the Group has to communicate and involve its stakeholders in its decision-making process. During the year ended 31 December 2019, the Group has engaged with its stakeholders on an ongoing basis via various engagement methods, such as online media and Wechat.

Key stakeholder groups include shareholders, employees, customers, suppliers, education and research partners, government and other public bodies, industry associations, and community. The Group continues to expand its stakeholder engagements to suppliers, customers, education and research partners, government and other public bodies, industry associations, and community. This will include surveys, focus group discussions, and other engagement activities. The engagement would allow the Group to better understand stakeholders' views on the Company's sustainable development. The findings will further enhance the sustainability of the Group.

Principal Risks and Uncertainties

The Board is ultimately responsible for ensuring that the risk management practices of the Group are sufficient to mitigate the risks present in our businesses and operations as efficiently and effectively as possible. The Group's financial position, operations, business and prospects may be affected by the following identified principal risks and uncertainties. The Group adopts risk management policies, measures and monitoring systems to pre-empt and contain exposures associated with the identified risks.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry risk in the PRC

The Group generates a substantial portion of revenue from the sales of asphalt mixing plants for road construction and maintenance projects in the PRC. The asphalt mixing plants are mainly used in the road construction and maintenance sectors and the development of our business depends on the sustained growth of these sectors in the PRC. Factors such as consumer, corporate and government spending, business investment, volatility and strength of the capital markets and inflation in the PRC affect the business and economic environment we are in, which affect our revenue and profitability.

If the PRC economy does not grow at the expected rate or the PRC government's spending on road construction and maintenance work declines, this could lead to less expected businesses and construction activities nationwide. If there are changes in the PRC laws, regulations or policies which lead to a decline in investment in infrastructure, road construction and maintenance, the demand for our products and services may decrease.

Industry risk in the overseas market

As part of the expansion strategy, the Group plans to increase our business in the overseas market by increasing the sales of our asphalt mixing plants and related services to customers in overseas markets such as India, Southeast Asia and Middle East countries, which have strong demands for asphalt mixing plants. The growth of our overseas sales of asphalt mixing plants is largely dependent on the demand for our products arising from the road construction and maintenance projects in the overseas markets.

If there is a decrease in investment in road construction and maintenance projects or a slower-than-expected economic growth and unfavorable macroeconomic conditions in these overseas markets, this could lead to less expected demand for our products and services.

Financial credit risk

The Group is subject to the risk that trade and bills receivable may not be collected in a timely manner and some of our customers may delay payment of the outstanding balances after due dates due to various reasons beyond our control, such as slow settlement of government funding for PRC road construction or maintenance projects that our customers participated in, and changes in implementation of infrastructure projects against original plans. There is credit risk exposure as provision for impairment losses may be increased because of the above-mentioned factors and other factors such as payment patterns of the customers and macroeconomic conditions. The Group continues to enhance and strengthen the credit control and collection policies to minimise the financial credit risk.

Environmental compliance risk

The PRC government has in recent years been increasingly stringent in its laws relating to environmental protection, for example, imposing carbon restrictions in the industrial and manufacturing sectors. The Group has environmental compliance policy and procedures in place to ensure the discharge of pollutants and wastes and other activities are in compliance with the relevant laws and regulations. Because of the increasingly stringent laws and regulations, our operating costs may be increased to ensure consistent compliance. We may also incur additional operating costs in order to update our waste discharge testing systems, improve our environmental protection technology and processes, and implement additional measures and assign more personnel to ensure that we comply with the PRC environmental laws.

Quality control risk

The performance, quality and safety of our products are critical to our business and development. The Group has established and maintains stringent quality control standards and internal inspection procedures. The effectiveness of our quality control system is determined by various factors, including the implementation of quality standards, quality of training programs and the adherence by our employees to our quality control policies and guidelines. In addition, our production output is highly dependent upon our quality control system and reliable and sufficient sources of high quality raw materials, parts and components. While we are able to produce the core parts and components for our products, our customers from time to time will request that we procure certain non-key parts, components and other ancillary materials for their customised products from a limited number of domestic or overseas suppliers. The Group has stringent quality control standards and measures to ensure parts, components and ancillary materials will be manufactured in accordance with our internal quality standards.

MANAGEMENT DISCUSSION AND ANALYSIS

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, 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.

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 RMB' million	Revised allocation as at 1 March 2017 RMB' million	Utilised amount as at 31 December 2019 RMB' million	Unutilised amount as at 31 December 2019 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	–

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Choi Hung Nang, aged 81, is our co-founder, chairman and executive Director. He was appointed as an executive Director on 11 September 2014. He is primarily responsible for supervising the operations and planning the business and marketing strategies of our Group. Mr. Choi established our Group in February 1999 and has been the chairman and director of Langfang D&G since June 2011. He is also a director of certain entities of the Group.

Mr. Choi graduated from the Changsha Railway Institute, Hunan Province (currently known as Central South University) with a bachelor's degree in railway construction in July 1963. In April 2012, he was awarded the outstanding alumni award from Central South University.

Prior to founding our Group, Mr. Choi had been engaged in the import and distribution of European and American branded specialised engineering equipment in Hong Kong and the PRC for over 12 years.

Mr. Choi is the father of Ms. Glendy Choi and Mr. Derek Choi and the brother of the father-in-law of Mr. Liu Tom Jing-zhi.

Ms. Choi Kwan Li, Glendy, aged 49, is our executive Director and chief executive officer. She was appointed as an executive Director on 11 September 2014. She is primarily responsible for overseeing the corporate management of our Group and the overall management and implementation of business and marketing strategies and plans. Ms. Glendy Choi has over 21 years of experience in the trading and manufacturing of specialised engineering equipment. She was appointed as a director and general manager of Langfang D&G in June 2009. She was also appointed as the legal representative of Langfang D&G in June 2011. She is also a director of certain entities of the Group.

Ms. Glendy Choi was awarded a master of business administration in marketing. She is a Fellow Certified Risk Planner of The Institute of Crisis and Risk Management. In November 2014, Ms. Glendy Choi was admitted as a fellow member of The Hong Kong Institute of Directors. In November 2015, Ms. Glendy Choi was admitted as a member of the Young Presidents' Organization ("YPO") – World Presidents' Organization and was appointed as the Executive Committee Member of YPO Sea Dragon Chapter in July 2016. She was appointed as the Learning Officer of YPO Sea Dragon Chapter for 2018 to 2019 and was appointed as the Chapter Chair of YPO Sea Dragon Chapter for 2019 to 2020. In April 2016, Ms. Glendy Choi was admitted as a member of the Hong Kong Professionals and Senior Executives Association and was appointed as a Voting Member in November 2017. In December 2016, Ms. Glendy Choi was admitted as a member of the Hong Kong Young Industrialists Council and was appointed as a Committee Member in October 2017.

Ms. Glendy Choi is one of the awardees of the Young Industrialist Awards Hong Kong 2016 and has been awarded the 7th Asia Pacific Entrepreneurship Awards 2016, Hong Kong Chapter by Enterprise Asia. She was titled by the Hebei Committee of the Communist Party of China and the Hebei Provincial People's Government as one of the Hundred High-tech Private Entrepreneurs in Hebei Province in December 2014.

Ms. Glendy Choi was titled as "100 Most Influential Persons of China Construction Machinery Industry" in 2017, 2018 and 2019.

In April 2018, Ms. Glendy Choi was appointed as a Vice President of the China Construction Machinery Association Road Machine Chapter* (中國工程機械工業協會築養路機械分會) for a term of five years.

Ms. Glendy Choi is the daughter of Mr. Choi Hung Nang, the sister of Mr. Derek Choi and the cousin-in-law of Mr. Liu Tom Jing-zhi.

* For identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Choi Hon Ting, Derek (formerly known as Choi Kwan Wai, Derek), aged 51, is our executive Director. He was appointed as an executive Director on 11 September 2014. Mr. Derek Choi has over 28 years of experience in the trading of specialised engineering equipment. He is primarily responsible for overseeing the strategic business development of our Group. Mr. Derek Choi has been appointed as a director of Langfang D&G since June 2011. He is also a director of certain entities of the Group.

Mr. Derek Choi was awarded a bachelor's degree in agricultural engineering from Purdue University in May 1991. Mr. Derek Choi has been appointed as one of the guarantors in the International Society of Trenchless Technologies since 2016. Mr. Derek Choi has been admitted as a fellow member of the Hong Kong Institute of Directors since February 2005. In April 2016, he was admitted as a member of Hong Kong Professionals and Senior Executives Association (HKPASEA). Mr. Derek Choi has been appointed as an independent non-executive director of HM International Holdings Limited (Hong Kong stock code: 8416) since 15 December 2016. He was an independent non-executive director of IPE Group Limited 國際精密集團有限公司* (Hong Kong stock code: 929) from 23 June 2004 to 2 June 2017.

Mr. Derek Choi is the son of Mr. Choi Hung Nang, the brother of Ms. Glendy Choi and the cousin-in-law of Mr. Liu Tom Jing-zhi.

Mr. Liu Tom Jing-zhi, aged 50, is our executive Director and chief operating officer. He was appointed as an executive Director on 11 September 2014. He is primarily responsible for overseeing daily operations of manufacturing facilities and the implementation of business strategies and plans of our Group. Mr. Liu has over 16 years of experience in corporate management and business operations. He joined our Group in August 2006 as the director and deputy general manager of Langfang D&G. He is also a director of certain entities of the Group.

In September 1999, Mr. Liu was awarded a graduate diploma in business administration from the University of Technology Sydney. Mr. Liu was recognised as a Person of Innovation* (創新人物) by the Equipment Management Institute of Hebei Province Innovation Development Committee (河北省工業設備管理創新發展峰會組委會) in June 2012. Since April 2013, Mr. Liu has been appointed as a member of the Sixth Committee of Chinese People's Political Consultative Conference, Langfang city (中國人民政治協商會議廊坊市第六屆委員會) for a term of 5 years and has ended in April 2018.

Mr. Liu is the son-in-law of Mr. Choi Hung Nang's elder brother and the cousin-in-law of Ms. Glendy Choi and Mr. Derek Choi.

Mr. Lao Kam Chi, aged 58, is our executive Director and general manager (sales and marketing). He is primarily responsible for managing and implementing sales and marketing strategies. Mr. Lao has over 32 years of experience in sales and marketing. Mr. Lao joined our Group in October 2002 as the general manager of the sales and marketing team in Beijing D&G Machinery Company Limited* (北京德基機械有限公司). He has been a director of Langfang D&G since June 2011, and the general manager of our sales and marketing centre since August 2009.

In July 1982, Mr. Lao was awarded a bachelor's degree in engineering from Southwest Jiaotong University (西南交通大學), China.

* For identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Chan Lewis (formerly known as Chan Yeung), aged 49, was appointed as a non-executive Director on 15 December 2014. Mr. Chan is the managing partner of Maunakai Capital Partners (Hong Kong) Limited. He is also an executive director of DT Capital Limited (formerly known as Incutech Investments Limited) (Hong Kong stock code: 356). Mr. Chan was an independent non-executive director of Yuk Wing Group Holdings Limited (Hong Kong Stock Code: 1536) from December 2016 to April 2018. He has over 20 years of experience in asset management and investment research. Mr. Chan received his bachelor's degree in economics from the University of Chicago in June 1994 and his master of arts from Columbia University in May 1996. Mr. Chan further obtained his Ph.D. from Harvard University in June 2000.

Mr. Chan was a winner of the Fama-DFA Prize of the Best Papers published in 2003 in the Journal of Financial Economics and is also a research fellow at The China Centre for Financial Research at Tsinghua University. Mr. Chan currently serves as a member of the Admissions, Budgets and Allocations Committee of the Community Chest of Hong Kong.

Mr. Alain Vincent Fontaine, aged 65, was appointed as a non-executive Director on 15 August 2016. Mr. Fontaine is responsible for providing advice on corporate governance and internal control matters of the Group. Mr. Fontaine obtained a bachelor's degree in electrical engineering from the University of Sherbrooke in Canada in June 1979. He has been a member of the Order of Engineers of Québec since January 1980.

Mr. Fontaine serves as an executive director and the vice-chairman of Hong Kong Venture Capital and Private Equity Association. In 2000, he founded Investel Asia, a venture capital and private equity firm and served as its managing director from January 2004 to December 2006. He was the chief executive officer of Newcom LLC from January 2007 to September 2008. Mr. Fontaine served various positions within the BCE Inc. group, a communications group in Canada, including Bell Canada, Bell Ardis and Tata Cellular, for approximately 16 years of his career. Since September 2012, Mr. Fontaine has also been a member of the advisory board of Ocean Equity Partners Fund L.P., an indirect substantial shareholder interested in 49,674,000 shares of the Company, representing approximately 7.99% of the issued share capital of the Company. Mr. Fontaine has also been acting as a non-executive director of Tsaker Chemical Group Limited (Hong Kong stock code: 1986) since April 2015. He was an independent director of China Lending Corporation, a company listed on NASDAQ (ticker: CLDC) from July 2016 to 29 December 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. O'Yang Wiley, aged 57, has over 33 years of experience in accounting, finance and legal industry, was appointed as our independent non-executive Director on 1 May 2019.

Since October 2012, Mr. O'Yang has been an independent non-executive director, chairman of the audit committee and a member of the nomination committee of Hong Kong Economic Times Holdings Limited (Hong Kong stock code: 0423) and a member of its remuneration committee since 26 July 2019. Since October 2018, Mr. O'Yang has been an independent non-executive director, the chairman of the remuneration committee and a member of the audit committee of Midea Real Estate Holding Limited (Hong Kong stock code: 3990). Since 11 June 2019, Mr. O'Yang has been an independent non-executive director, chairman of the audit committee, and a member of the nomination committee of AB Builders Group Limited (Hong Kong stock code: 1615). Since 11 November 2019, Mr. O'Yang has been an independent non-executive director, chairman of the audit committee and a member of each of the nomination committee and remuneration committee of Tianyun International Holdings Limited (Hong Kong stock code: 6836).

Mr. O'Yang has been the managing director of Shanggu Securities Limited since February 2018. Prior to joining Shanggu Securities Limited, he worked for over 13 years as managing director and executive director in various financial institutions, including CMBC International Holdings Limited, a wholly-owned subsidiary of China Minsheng Banking Corp., Ltd. (Hong Kong stock code: 1988), Kim Eng Securities (Hong Kong) Limited, a wholly-owned subsidiary of Malayan Banking Berhad, UBS AG, Hong Kong branch, J.P. Morgan Securities (Asia Pacific) Limited and BNP Paribas Capital (Asia Pacific) Limited.

Mr. O'Yang had also worked for over six years as a solicitor in private practice at a number of solicitors' firms and was a partner of Richards Butler (currently known as Reed Smith Richards Butler) immediately before he joined BNP Paribas Capital (Asia Pacific) Limited in May 2004.

Mr. O'Yang graduated from the Chinese University of Hong Kong in Hong Kong with a bachelor's degree in Social Science in December 1985 and a master's degree in Business Administration in October 1990. He obtained a common professional examination certificate from the School of Professional and Continuing Education of the University of Hong Kong in Hong Kong in June 1993. He obtained the postgraduate certificate in Laws from the department of professional legal education of the Faculty of Law at the University of Hong Kong in June 1994. He is also a fellow member of the Chartered Association of Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Law Society of Hong Kong.

Mr. Li Zongjin, aged 67, was appointed as our independent non-executive Director on 24 April 2015. He has been the Chair Professor of the Institute of Applied Physics and Materials Engineering at the University of Macau since January 2017. Mr. Li graduated from Zhejiang University, China with a bachelor's degree in structure engineering in 1982. Mr. Li further obtained his master of science in December 1990 and his Ph.D. in December 1993 from Northwestern University, United States of America. Mr. Li is a fellow of the American Concrete Institute and was a member of the Hong Kong Institute of Engineers.

Mr. Li has over 30 years of experience in the field of civil and structural engineering and has published 6 books in the area of materials engineering. In August 2008, Mr. Li was appointed as a chief scientist under the National Basic Research Program of China (973 Project). Mr. Li's research project on geopolymer-based structural materials preparation technology was awarded second prize by the PRC Ministry of Education in January 2010. Mr. Li received the Arthur R. Anderson Medal from American Concrete Institute in 2017. In July 2017, Mr. Li retired from the Department of Civil and Environmental Engineering of the Hong Kong University of Science and Technology where he was a professor for 23 years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lee Wai Yat, Paco, aged 54, was appointed as our independent non-executive Director on 24 April 2015. He has been the general manager (business development, global frozen and related business) of Thai Union Group Public Company Limited (formerly known as Thai Union Frozen Products Public Company Limited) (Stock Exchange of Thailand code: TU) since February 2017. He is also the non-executive director of Avanti Feeds Limited (listed on the Bombay Stock Exchange and National Stock Exchange of India Limited, ticker: AVANTI/AVANTIFEED) and Pakfood Public Company Limited (Stock Exchange of Thailand code: PPC and delisted in November 2013).

Mr. Lee has over 17 years of experience in corporate finance and management. Mr. Lee graduated from Purdue University in May 1991 with a bachelor of science in management. Mr. Lee obtained his master of business administration from the Sasin Graduate Institute of Business Administration (a joint program between the Kellogg School of Management of Northwestern University, the Wharton School of University of Pennsylvania, and Chulalongkorn University) in Bangkok in March 1993.

Mr. Lee completed the Director Certification Program held by the Thai Institute of Directors in June 2012. In 2014, Mr. Lee was awarded as the 3rd Best Chief Financial Officer in Thailand by FinanceAsia's annual Best Managed Companies Poll.

Fok Wai Shun, Wilson, aged 45, was appointed as our independent non-executive Director on 24 April 2015. Mr. Fok has over 20 years of experience in the fields of corporate finance, accounting and investment banking. Mr. Fok holds a double bachelor degree in commerce and in laws from the University of Melbourne. Mr. Fok was admitted as a solicitor and barrister of the Supreme Court of Victoria, Australia in 1998 and is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of Certified Public Accountants, Australia.

Mr. Fok previously worked in the Assurance and Corporate Finance and Recovery departments of PricewaterhouseCoopers from 2000 to 2004. From 2004 to 2010, Mr. Fok served in various positions at the investment banking division of Piper Jaffray Asia Limited. From 2010 to 2014, Mr. Fok served at the corporate finance division of CCB International Capital Limited where his last position was executive director. From 2015 to 2018, he was the managing director of Challenge Capital Management Limited. From 2018 to 2019, he was the managing director of Titan Financial Services Limited. He is currently the managing director, co-head and head of IPO of the corporate finance department of Opus Financial Group.

Senior Management

Mr. Tsang Chin Pang, aged 41, joined the Group in July 2016 and was appointed as the chief financial officer and company secretary of the Group on 30 November 2016. He is responsible for the financial planning and management, tax, corporate finance and company secretarial matters of the Group. Mr. Tsang graduated from the Hong Kong University of Science and Technology with a bachelor of business administration in finance. Mr. Tsang is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tsang has over 18 years of experience in the field of finance and accounting. Prior to joining the Group, Mr. Tsang worked in the Assurance and Advisory Business Services department of Ernst & Young from September 2001 to February 2004 and PricewaterhouseCoopers from February 2004 to July 2007, respectively. Mr. Tsang also worked in the Mergers and Acquisitions Transaction Services department of Deloitte from September 2007 to February 2011. Mr. Tsang was the chief financial officer and company secretary of Realord Group Holdings Limited (Hong Kong stock code: 1196) for the period from February 2011 to July 2016.

Corporate Governance Practices

The Board has committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, to enhance corporate value and accountability, to formulate its business strategies and policies, and to enhance its transparency and accountability.

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

In the opinion of the Directors, throughout the year ended 31 December 2019, the Company has complied with all the code provisions as set out in the CG Code.

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.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2019.

The Company has also established written guidelines no less exacting than the Model Code (the “Employees Written Guidelines”) for securities transactions by relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

Board of Directors

The Board currently comprises eleven members, consisting of five executive Directors, two non-executive Directors and four independent non-executive Directors. The executive Directors, non-executive Directors and independent non-executive Directors during the year ended 31 December 2019 were as follows:

Executive Directors:

Mr. Choi Hung Nang (*Chairman of the Board and chairman of the Nomination Committee*)

Ms. Choi Kwan Li, Glendy (*Chief Executive Officer, chairman of the Risk Management Committee and member of the Remuneration Committee*)

Mr. Choi Hon Ting, Derek

Mr. Liu Tom Jing-zhi (*Chief Operating Officer and member of the Risk Management Committee*)

Mr. Lao Kam Chi

Non-executive Directors:

Mr. Chan Lewis

Mr. Alain Vincent Fontaine

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors:

Mr. Law Wang Chak, Walterry (*Chairman of the Audit Committee and member of the Remuneration Committee and Risk Management Committee*) (resigned on 1 May 2019)

Mr. O'Yang Wiley (*Chairman of the Audit Committee and member of the Remuneration Committee and Risk Management Committee*) (appointed on 1 May 2019)

Mr. Li Zongjin (*Member of the Audit Committee and Nomination Committee*)

Mr. Lee Wai Yat, Paco (*Member of the Audit Committee and Nomination Committee*)

Mr. Fok Wai Shun, Wilson (*Chairman of the Remuneration Committee and member of the Audit Committee and Risk Management Committee*)

The biographical information of the Directors as well as the relationships between the members of the Board are set out under "Biographical Details of Directors and Senior Management" on pages 18 to 22 of this Annual Report.

Chairman and Chief Executive Officer

The positions of chairman of the Board (the "Chairman") and chief executive officer of the Company (the "Chief Executive Officer") are held by Mr. Choi Hung Nang and Ms. Choi Kwan Li, Glendy respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

During the year ended 31 December 2019, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 of the CG Code states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive Directors, non-executive Directors and independent non-executive Directors (except Mr. Alain Vincent Fontaine and Mr. O'Yang Wiley) has entered into a service agreement with the Company for an initial term of three years commencing from 27 May 2015 and renewed his/her service agreement with the Company for a further period of three years commencing from 27 May 2018. Each of their appointments is subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the articles of association of the Company (the "Articles of Association") and the Listing Rules.

Mr. Alain Vincent Fontaine, a non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 15 August 2016 and renewed his service agreement with the Company for a further period of three years commencing from 15 August 2019. Mr. O'Yang Wiley, an independent non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 1 May 2019. Both Mr. Fontaine and Mr. O'Yang's appointments are subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

CORPORATE GOVERNANCE REPORT

In accordance with the Articles of Association, every Director shall be subject to retirement at an annual general meeting of the Company at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board takes decisions objectively in the interests of the Company.

All Directors, including the non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities.

Mr. Choi Hung Nang (Chairman) is the father of Ms. Choi Kwan Li, Glendy (Chief Executive Officer) and Mr. Choi Hon Ting, Derek and the brother of the father-in-law of Mr. Liu Tom Jing-zhi. Apart from the aforesaid, there are no other financial, business, family or other material/relevant relationships among members of the Board.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive a comprehensive, formal and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, all Directors had provided to the Company their training records. All Directors participated in continuous professional development exercised by way of attending seminars/conferences/forums organised by professional organisations and keep themselves updated on the roles, functions and duties of a listed company director. In addition, relevant reading materials including directors' manual, legal and regulatory update and seminar handouts have been provided to the Directors for their reference and studying. The trainings attended by the Directors are in the areas of corporate governance, regulatory update, financial management, director's duties and responsibilities, environmental, social and governance, business skills and knowledge, etc. The Company is of the view that all Directors have complied with code provision A.6.5 of the CG Code.

Board Committees

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

Save for the Risk Management Committee, the majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this Annual Report.

Audit Committee

The Audit Committee currently comprises four members, namely, Mr. O'Yang Wiley (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson (including at least one independent non-executive Directors with appropriate professional qualifications or accounting or related financial management expertise), all are independent non-executive Directors. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditor and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2019, the Audit Committee held two meetings to review annual financial results and report in respect of the year ended 31 December 2018, interim financial results and report in respect of the period ended 30 June 2019, significant issues on the financial reporting and compliance procedures, the effectiveness of the internal control and risk management systems and internal audit function, scope of work and appointment of external auditor, arrangements for employees to raise concerns about possible improprieties and to discuss the audit plan for the year ended 31 December 2019 of the Company. The attendance records of the Audit Committee are set out under "Attendance Records of Directors and Committee Members" of this Annual Report.

Remuneration Committee

The Remuneration Committee currently comprises three members, namely, Mr. Fok Wai Shun, Wilson (Chairman) (independent non-executive Director), Ms. Choi Kwan Li, Glendy (executive Director) and Mr. O'Yang Wiley (independent non-executive Director).

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management, and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the Remuneration Committee held one meeting to make recommendations to the Board on the remuneration policy and structure of the Company, the remuneration packages of the executive Directors and senior management and other related matters. The attendance records of the Remuneration Committee are set out under “Attendance Records of Directors and Committee Members” of this Annual Report.

Details of the remuneration of the senior management for the year ended 31 December 2019 are set out in note 9(b) in the “Notes to the Consolidated Financial Statements” of this Annual Report.

Nomination Committee

The Nomination Committee currently comprises three members, namely, Mr. Choi Hung Nang (Chairman) (executive Director), Mr. Li Zongjin and Mr. Lee Wai Yat, Paco (independent non-executive Directors).

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company’s board diversity policy (the “Board Diversity Policy”). The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate’s relevant criteria as set out in the Company’s director nomination policy (the “Director Nomination Policy”) that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the year ended 31 December 2019, the Nomination Committee held one meeting to review the structure, size and composition of the Board, the independence of the independent non-executive Directors, the Board Diversity Policy and to consider the qualifications of the retiring Directors standing for election at the annual general meeting of the Company. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained. The attendance records of the Nomination Committee are set out under “Attendance Records of Directors and Committee Members” of this Annual Report.

Risk Management Committee

The Risk Management Committee currently comprises five members, namely, Ms. Choi Kwan Li, Glendy (Chairman) (executive Director), Mr. Liu Tom Jing-zhi (executive Director), Mr. O’Yang Wiley, Mr. Fok Wai Shun, Wilson (independent non-executive Directors) and Mr. Tsang Chin Pang (chief financial officer).

The principal duties of the Risk Management Committee include reviewing and assessing the effectiveness of the Company’s risk management system and discussing the risk management system with management to ensure that management has performed its duty to have effective risk management system.

During the year ended 31 December 2019, the Risk Management Committee held four meetings to review and make recommendation on the adequacy and effectiveness of the Group’s risk management and internal control system. The attendance records of the Risk Management Committee are set out under “Attendance Records of Directors and Committee Members” of this Annual Report.

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

The Company has adopted the Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee.

The Company has adopted the Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategies;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2019, there was no change in the composition of the Board apart from the resignation of Mr. Law Wang Chak, Waltery and appointment of Mr. O'Yang Wiley, the independent non-executive Directors on 1 May 2019.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year ended 31 December 2019, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Records of Directors and Committee Members

The attendance records of each Director at the Board and Board committee meetings and the annual general meeting of the Company held during the year ended 31 December 2019 are set out in the table below:

Name of Director	Attendance/Number of Meetings					Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee	
Mr. Choi Hung Nang	3/4	-	-	0/1	-	1/1
Ms. Choi Kwan Li, Glendy	4/4	2/2	1/1	-	4/4	1/1
Mr. Choi Hon Ting, Derek	3/4	-	-	-	-	0/1
Mr. Liu Tom Jing-zhi	4/4	-	-	-	4/4	0/1
Mr. Lao Kam Chi	4/4	-	-	-	-	1/1
Mr. Chan Lewis	4/4	-	-	-	-	0/1
Mr. Alain Vincent Fontaine	4/4	-	-	-	-	1/1
Mr. Law Wang Chak, Waltery (resigned on 1 May 2019)	1/4	1/2	1/1	-	1/4	0/1
Mr. O'Yang Wiley (appointed on 1 May 2019)	3/4	1/2	0/1	-	3/4	1/1
Mr. Li Zongjin	3/4	2/2	-	1/1	-	1/1
Mr. Lee Wai Yat, Paco	4/4	2/2	-	1/1	-	0/1
Mr. Fok Wai Shun, Wilson	4/4	2/2	1/1	-	4/4	1/1

Apart from regular Board meetings, the Chairman also held one meeting with the independent non-executive Directors without the presence of other Directors during the year ended 31 December 2019.

Directors' Responsibility in Respect of the Financial Statements

Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 47 to 51 of this Annual Report.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditor.

CORPORATE GOVERNANCE REPORT

Auditor's Remuneration

An analysis of the fees charged by the external auditor of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended 31 December 2019 is set out below:

Service Category	Fees RMB'000
Audit Services	1,858
Non-audit Services	79
	1,937

Risk Management and Internal Controls

Role of the Board

The Board acknowledges that it is responsible for reviewing the effectiveness of the risk management and internal control systems. The Board has the overall responsibility for evaluating and determining the nature and extent of the risks taken by the Group to achieve its strategic business objectives. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has reviewed the risk management and internal control systems of the Group and considered them to be effective and adequate and did not note any material deviation during the year ended 31 December 2019. The management has confirmed to the Board, the Audit Committee and the Risk Management Committee on the effectiveness of the risk management and internal control systems of the Company for the year ended 31 December 2019.

Framework of the Risk Management and Internal Control Systems

The Group's risk governance structure and the main responsibilities of each level of the structure are summarised below:

Board

- Determines the business strategies and objectives of the Group and evaluates and determines the nature and extent of risks willing to take in order to achieve the Group's strategic objectives;
- Ensures the Group establishes and maintains appropriate and effective risk management and internal control systems; and
- Oversees the design, implementation and monitoring of the risk management and internal control systems of the Group.

Audit Committee and Risk Management Committee

- Assist the Board to perform its duties on reviewing the Group's risk management and internal control systems;
- Oversee the Group's risk management and internal control systems on an on-going basis;
- Review the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance controls;
- Ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions; and
- Consider major findings on risk management and internal control matters, and report and make recommendations to the Board.

CORPORATE GOVERNANCE REPORT

Management

- Designs, implements and maintains appropriate and effective risk management and internal control systems;
- Identifies, evaluates and manages the risks that may potentially impact the major processes of the operations;
- Monitors risks and takes measures to mitigate risks in day-to-day operations;
- Gives prompt responses to, and follow up the findings on risk management and internal control matters raised by the internal audit team or the external risk management and internal control review adviser; and
- Provides confirmation to the Board, the Audit Committee and the Risk Management Committee on the effectiveness of the risk management and internal control systems.

Process Used to Review the Effectiveness of the Risk Management and Internal Control System

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. The management, in coordination with department heads, assessed the likelihood of risk occurrence, provided remediation plans, monitored the risk management progress, and reported to the Audit Committee, the Risk Management Committee and the Board on all findings and the effectiveness of the risk management and internal control systems.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification:

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment:

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact on the business and the likelihood of their occurrence.

Risk Response:

- Prioritises the risks by comparing the results of the risk assessment; and
- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting:

- Performs on-going and periodic monitoring of the risks and ensures that appropriate internal control processes are in place;
- Revises the risk management strategies and internal control processes in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

Internal Audit Function

The Group has its internal audit function to conduct the annual review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2019. Such review is conducted annually. The scope of review was previously determined and approved by the Audit Committee and the Risk Management Committee. Major findings and areas for improvement have been reported to the Audit Committee and the Risk Management Committee. All recommendations from the risk management and internal control review adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Group therefore considered that the risk management and internal control systems are effective and adequate.

Whistleblowing Policy

The Company is committed to achieving and maintaining the highest possible standards of openness, probity and accountability. A whistleblowing policy is in place to create a system for the employees to raise concerns, in confidence, to the Audit Committee and the Board about possible improprieties relating to the Company. The identity of the whistleblower will be treated with the strictest confidence.

CORPORATE GOVERNANCE REPORT

Disclosure Policy

The disclosure policy is in place to ensure potential inside information is being captured and confidentiality of such information is being maintained until consistent and timely disclosure is made in accordance with the Listing Rules. The policy regulates the handling and dissemination of inside information, which includes:

- Designated reporting channels from different operations informing any potential inside information to designated departments;
- Designated persons and departments to determine further escalation and disclosure as required; and
- Designated persons authorised to act as spokespersons and respond to external enquiries.

Company Secretary

Mr. Tsang Chin Pang, who is also the chief financial officer of the Company, was appointed by the Board as the company secretary of the Company with effect from 30 November 2016. The role of the company secretary is to ensure good information flow within the Board and between the Board and senior management, provide advice to the Board in relation to directors' obligations under the Listing Rules and applicable laws and regulations and assist the Board in implementing corporate governance practices. In accordance with Rule 3.29 of the Listing Rules, the Company has received training information from Mr. Tsang, pursuant to the content of which, the Company confirmed that Mr. Tsang had taken not less than 15 hours of relevant professional trainings to update his skills and knowledge during the year ended 31 December 2019.

Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of Hong Kong Exchanges and Clearing Limited after each general meeting.

Procedure for shareholders to convene an extraordinary general meeting

Any one or more shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. This meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedure for shareholders to propose a person for election as a Director at a general meeting

After the publication of the notice of a general meeting by the Company, according to Article 85 of the Articles of Association, if a shareholder of the Company (other than the person to be proposed) duly qualified to attend and vote at an annual general meeting of the Company wishes to propose a person (the "Candidate") for election as a Director at the general meeting, he/she shall deposit a written notice (the "Notice") at the Company's registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands, its principal place of business in Hong Kong at 7/F, Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong or at the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. The Notice (a) must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (b) must be signed by the shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information. The period for lodgement of the Notice shall commence on the date after the despatch of the notice of the general meeting and end no later than seven days prior to the date of such general meeting. In order to allow the Company's shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director, shareholders who wish to make the proposal are urged to submit and lodge the Notice as early as practicable before the relevant general meeting.

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Procedure for putting forward enquiries

For enquiries about shareholdings, shareholders should direct their enquiries to the Company's branch share registrar, Tricor Investor Services Limited, via its online holding enquiry service at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or call its hotline at (852) 2980 1333, or go in person to its public counter at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

For enquiries about corporate governance or other matters to be put to the Board and the Company, the Company will not normally deal with verbal or anonymous enquiries. Shareholders may send written enquiries to the Company, for the attention of Company Secretary, by email: ir@dgtechnology.com, by fax: (852) 2541 9078, or mail: 7/F, Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong.

Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors/Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) will be available to meet shareholders and answer their enquiries.

To promote effective communication, the Company maintains a website at www.dgtechnology.com where up-to-date information and updates on the Company's financial information, corporate governance practices and other information are posted.

There was no change in the Articles of Association during the year ended 31 December 2019. An up to date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Policy relating to shareholders

The Company has adopted a dividend policy (the "Dividend Policy") on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval. Such details have been disclosed in this Annual Report.

Deed of Non-Competition Undertakings

As disclosed in the Company's prospectus (the "Prospectus") dated 14 May 2015, each of Prima DG Investment Holding Company Limited (翰名投資控股有限公司), Mr. Choi Hung Nang, Ms. Tin Suen Chu, Ms. Choi Kwan Li, Glendy and Mr. Choi Hon Ting, Derek, Controlling Shareholders (as defined in the Prospectus) of the Company, has entered into a deed of non-competition dated 6 May 2015 in favour of the Company (for itself and as trustee for its subsidiaries from time to time).

The Company has received a declaration made by the Controlling Shareholders in compliance with the deed of non-competition for the year ended 31 December 2019.

The independent non-executive Directors have conducted a review on the compliance and enforcement of the deed of non-competition by the Controlling Shareholders for the year ended 31 December 2019.

CORPORATE GOVERNANCE REPORT

Compliance with the Sanctions Undertaking

As disclosed in the Prospectus, the Company has, amongst others, undertaken to the Stock Exchange that it would not use the proceeds from the global offering, or any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with any sanctioned country which are prohibited under international sanction laws and regulations or with any sanctioned person (the "Sanctions Undertaking"). To ensure compliance with the Sanctions Undertaking, the Company has ensured that separate books and records are in place to monitor the activities of the proceeds from the global offering.

During the year ended 31 December 2019, the internal control committee of the Company, which members are Mr. Tsang Chin Pang (chief financial officer of the Company) and Ms. Ng Po Fung (assistant to the Chief Executive Officer), held a meeting to evaluate the Group from a sanctions risk perspective and to ensure the nature and location of the activities or business, as well as the identity of the counterparties and the products involved, etc., would not violate the Sanctions Undertaking.

REPORT OF THE DIRECTORS

The Directors are pleased to present the Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

Principal Place of Business

The Company was incorporated in the Cayman Islands and is domiciled in Hong Kong and its principal place of business in Hong Kong is 7/F, Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong. The Group's principal place of business in the PRC is at No. 12 Yinghua Road, Yongqing Industrial Park, Yongqing County, Langfang City, Hebei Province, the PRC.

Principal Activities and Business Review

The principal activities of the Group are manufacturing, distribution, research and development and operating lease of asphalt mixing plants and provision of machinery finance service. The principal activities and other particulars of the subsidiaries are set out in note 17 to the consolidated financial statements. During the year, there was no significant change in the Group's principal activities.

Detailed business review, including further discussions of the risks and uncertainties facing the Group, likely future development of the Group's business, and analysis on the financial key performance indicators, are set out in the Chairman's Statement on pages 4 to 5 of this Annual Report and the Management Discussion and Analysis on pages 6 to 17 of this Annual Report. These discussions form part of this Report of the Directors.

Results and Dividends

The loss of the Group for the year ended 31 December 2019 and the state of affairs of the Company and the Group as at 31 December 2019 are set out in the audited consolidated financial statements on pages 52 to 120 of this Annual Report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019. No interim dividend has been declared for the year ended 31 December 2019.

Five Year Financial Summary

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 3 of this Annual Report.

Distributable Reserves

The distributable reserves of the Company as at 31 December 2019 amounted to RMB442,620,000.

Non-current Assets

Details of acquisitions and other movements in non-current assets (including property, plant and equipment, land use right, right-of-use assets and intangible assets) during the year are set out in notes 13 to 16 to the consolidated financial statements.

Share Issued in the Year

Details of the movements in share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

REPORT OF THE DIRECTORS

Debentures Issued in the Year

No debentures were issued by the Company during the year ended 31 December 2019.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares of the Company on a pro-rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Major Customers and Suppliers

During the year ended 31 December 2019, aggregate sales to the Group's largest and five largest customers accounted for 10.2% (2018: 16.6%) and 26.6% (2018: 33.8%), respectively, of the Group's total revenue for the year.

Aggregate purchases from the Group's largest and five largest suppliers accounted for 2.8% (2018: 5.4%) and 11.9% (2018: 19.2%), respectively, of the Group's total purchases for the year ended 31 December 2019. Aggregate purchases from the Group's largest and five largest subcontractors accounted for 4.3% (2018: 6.7%) and 15.3% (2018: 21.9%), respectively, of the Group's total purchases for the year ended 31 December 2019.

At no time during the year have the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers, suppliers and subcontractors.

Relationship with Employees

The Group recognises employees as the most important asset of the Group. The contribution and support of employees are valued at all times. The Group regularly reviews the remuneration policies according to the market benchmarks, financial results and individual performance of employees. Other staff benefit plans are provided to enhance the employees' loyalty and satisfaction.

Directors

The Directors during the year ended 31 December 2019 and up to the date of this Annual Report were:

Executive Directors

Mr. Choi Hung Nang (*Chairman*)
Ms. Choi Kwan Li, Glendy (*Chief Executive Officer*)
Mr. Choi Hon Ting, Derek
Mr. Liu Tom Jing-zhi
Mr. Lao Kam Chi

Non-Executive Directors

Mr. Chan Lewis
Mr. Alain Vincent Fontaine

REPORT OF THE DIRECTORS

Independent Non-Executive Directors

Mr. Law Wang Chak, Waltery (*resigned on 1 May 2019*)

Mr. O'Yang Wiley (*appointed on 1 May 2019*)

Mr. Li Zongjin

Mr. Lee Wai Yat, Paco

Mr. Fok Wai Shun, Wilson

The Company has received annual confirmations of independence from each of the independent non-executive Directors, and as at the date of this Annual Report still considers them to be independent.

Pursuant to Article 84 of the Articles of Association, Mr. Choi Hung Nang, Mr. Choi Hon Ting, Derek and Mr. Lee Wai Yat, Paco shall retire from the office by rotation at the forthcoming annual general meeting. In addition, Mr. O'Yang Wiley who has been appointed by the Board on 1 May 2019 shall hold office until the forthcoming annual general meeting pursuant to Article 83(3) of the Articles of Association. All the retiring Directors, being eligible, will offer themselves for re-election.

Biographical Details of Directors and Senior Management

Biographical details of the Directors and the senior management of the Company are set out on pages 18 to 22 of this Annual Report.

Directors' Service Contracts

Each of the executive Directors, non-executive Directors and independent non-executive Directors (except Mr. Alain Vincent Fontaine and Mr. O'Yang Wiley) has entered into a service agreement with the Company for an initial term of three years commencing from 27 May 2015 and renewed his/her service agreement with the Company for a further period of three years commencing from 27 May 2018. Each of their appointments is subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

Mr. Alain Vincent Fontaine, a non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 15 August 2016 and renewed his service agreement with the Company for a further period of three year commencing from 15 August 2019. Mr. O'Yang Wiley, an independent non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 1 May 2019. Both Mr. Fontaine and Mr. O'Yang's appointments are subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries other than agreements expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' Remuneration

Details of the remuneration of the Directors are set out in note 35 to the consolidated financial statements, which are recommended by the Remuneration Committee of the Company with reference to the salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

REPORT OF THE DIRECTORS

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2019, the interests or short positions of the Directors, the chief executives of the Company (the "Chief Executives") and their associates in the shares of the Company (the "Shares"), underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

(i) Interests in Shares and underlying shares

Name of Director	Long/Short position	Type of interest	Number of Shares and underlying shares held	Approximate percentage of shareholding in the Company
Mr. Choi Hung Nang	Long	Interest in controlled corporation ⁽¹⁾	345,696,000	55.58%
	Long	Interest of spouse ⁽²⁾	620,000	0.10%
	Long	Beneficial owner	29,802,000	4.79%
	Long	Beneficial owner ⁽³⁾	8,000,000	1.29%
Ms. Choi Kwan Li, Glendy	Long	Beneficial owner	150,000	0.02%
	Long	Beneficial owner ⁽³⁾	8,000,000	1.29%
Mr. Choi Hon Ting, Derek	Long	Beneficial owner	150,000	0.02%
	Long	Beneficial owner ⁽³⁾	8,000,000	1.29%
Mr. Liu Tom Jing-zhi	Long	Interest in controlled corporation ⁽⁴⁾	13,500,000	2.17%
	Long	Interest of spouse ⁽⁴⁾	150,000	0.02%
	Long	Beneficial owner ⁽⁵⁾	4,000,000	0.64%
Mr. Lao Kam Chi	Long	Interest in controlled corporation ⁽⁶⁾	9,000,000	1.45%
	Long	Beneficial owner ⁽⁵⁾	4,000,000	0.64%
Mr. Chan Lewis	Long	Beneficial owner ⁽⁷⁾	600,000	0.10%
Mr. Alain Vincent Fontaine	Long	Beneficial owner ⁽⁸⁾	300,000	0.05%
Mr. Li Zongjin	Long	Beneficial owner ⁽⁷⁾	600,000	0.10%
Mr. Lee Wai Yat, Paco	Long	Beneficial owner	300,000	0.05%
	Long	Beneficial owner ⁽⁹⁾	300,000	0.05%
Mr. Fok Wai Shun, Wilson	Long	Beneficial owner ⁽¹⁰⁾	800,000	0.13%

REPORT OF THE DIRECTORS

(ii) Interests in shares and underlying shares of associated corporation

Name of Director	Name of associated corporation	Long/Short position	Type of interest	Approximate percentage of shareholding in the Company
Mr. Choi Hung Nang	Prima DG Investment Holding Company Limited ("Prima DG")	Long	Beneficial owner	40%
Ms. Choi Kwan Li, Glendy	Prima DG	Long	Beneficial owner	20%
Mr. Choi Hon Ting, Derek	Prima DG	Long	Beneficial owner	20%

Notes:

- The 345,696,000 Shares were held by Prima DG, which is directly held as to 40% by Mr. Choi Hung Nang. Accordingly, by virtue of the SFO, Mr. Choi Hung Nang is deemed to be interested in all the Shares in which Prima DG is interested.
- The 620,000 Shares were held by his spouse, Ms. Tin Suen Chu. Accordingly, by virtue of the SFO, Mr. Choi Hung Nang is deemed to be interested in all the Shares in which Ms. Tin Suen Chu is interested.
- Each of Mr. Choi Hung Nang, Ms. Choi Kwan Li, Glendy and Mr. Choi Hon Ting, Derek was granted 4,000,000 share options during the year ended 31 December 2016 and 4,000,000 share options during the year ended 31 December 2018 under the share option scheme of the Company adopted on 6 May 2015 (the "Share Option Scheme") and was deemed to be interested in 8,000,000 underlying shares in respect of the share options granted.
- The 13,500,000 Shares were held by Zacks Vroom Investment Company Limited, a company wholly-owned by Mr. Liu Tom Jing- zhi. The 150,000 Shares were held by his spouse, Ms. Thai Vanny. Accordingly, by virtue of the SFO, Mr. Liu is deemed to be interested in all the Shares in which Zacks Vroom Investment Company Limited and Ms. Thai Vanny are interested.
- Each of Mr. Liu Tom Jing-zhi and Mr. Lao Kam Chi was granted 2,000,000 share options during the year ended 31 December 2016 and 2,000,000 share options during the year ended 31 December 2018 under the Share Option Scheme and was deemed to be interested in 4,000,000 underlying shares in respect of the share options granted.
- The 9,000,000 Shares were held by Denmike Investment Company Limited, a company wholly-owned by Mr. Lao Kam Chi. Accordingly, by virtue of the SFO, Mr. Lao is deemed to be interested in all the Shares in which Denmike Investment Company Limited is interested.
- Each of Mr. Chan Lewis and Mr. Li Zongjin was granted 300,000 share options during the year ended 31 December 2016 and 300,000 share options during the year ended 31 December 2018 under the Share Option Scheme and was deemed to be interested in 600,000 underlying shares in respect of the share options granted.
- Mr. Alain Vincent Fontaine was granted 300,000 share options during year ended 31 December 2018 under the Share Option Scheme and was deemed to be interested in 300,000 underlying shares in respect of the share options granted.
- Mr. Lee Wai Yat, Paco was granted 300,000 share options during the year ended 31 December 2016 and 300,000 share options during the year ended 31 December 2018 under the Share Option Scheme. 300,000 share options were exercised during the year ended 31 December 2019. He was deemed to be interested in 300,000 underlying shares in respect of the share options granted during the year ended 31 December 2018.
- Mr. Fok Wai Shun, Wilson was granted 400,000 share options during the year ended 31 December 2016 and 400,000 share options during the year ended 31 December 2018 under the Share Option Scheme and was deemed to be interested in 800,000 underlying shares in respect of the share options granted.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2019, none of the Directors, the Chief Executives nor their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2019, so far as known to the Directors, the following interests of 5% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Long/Short position	Type of interest	Number of Shares and underlying shares held	Approximate percentage of shareholding in the Company
Prima DG ¹	Long	Beneficial owner	345,696,000	55.58%
Mr. Choi Hung Nang ¹	Long	Interest in controlled corporation	345,696,000	55.58%
	Long	Interest of spouse	620,000	0.10%
	Long	Beneficial owner	29,802,000	4.79%
	Long	Beneficial owner ²	8,000,000	1.29%
Ms. Tin Suen Chu ¹	Long	Interest of spouse	383,498,000	61.66%
	Long	Beneficial owner	620,000	0.10%
Regal Sky Holdings Limited ³	Long	Beneficial owner	49,674,000	7.99%
Ocean Equity Partners Fund L.P. ³	Long	Interest in controlled corporation	49,674,000	7.99%
Ocean Equity Partners Fund GP Limited ³	Long	Interest in controlled corporation	49,674,000	7.99%

Notes:

- Prima DG directly held 345,696,000 Shares. Prima DG is directly held as to 40% by Mr. Choi Hung Nang. Accordingly, by virtue of the SFO, Mr. Choi Hung Nang is deemed to be interested in all the Shares in which Prima DG is interested.

Since Mr. Choi Hung Nang is the spouse of Ms. Tin Suen Chu, Mr. Choi Hung Nang is deemed to be interested in the same number of Shares in which Ms. Tin Suen Chu is interested by virtue of the SFO.

Since Ms. Tin Suen Chu is the spouse of Mr. Choi Hung Nang, Ms. Tin Suen Chu is deemed to be interested in the same number of Shares in which Mr. Choi Hung Nang is interested by virtue of the SFO.

- Mr. Choi Hung Nang was granted 4,000,000 share options during the year ended 31 December 2016 and 4,000,000 share options during the year ended 31 December 2018 under the Share Option Scheme and was deemed to be interested in 8,000,000 underlying shares in respect of the share options granted.
- Regal Sky Holdings Limited, a company incorporated under the laws of the British Virgin Islands, is controlled by Ocean Equity Partners Fund L.P., which is an exempted limited partnership registered in the Cayman Islands. The general partner of Ocean Equity Partners Fund L.P. is Ocean Equity Partners Fund GP Limited.

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Save as disclosed above, as at 31 December 2019, no other interests or short positions in the Shares or underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Share Option Scheme

The Company's Share Option Scheme was adopted pursuant to the resolutions of all the shareholders passed on 6 May 2015 and shall be valid and effective for a period of 10 years commencing from 6 May 2015. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of the employees and directors of the members of the Group and other selected participants.

The Board may at its absolute discretion (subject to any conditions as it may think fit) grant options to any employee and director (including executive director, non-executive director and independent non-executive director) of any member of the Group and any other eligible participants (the "Eligible Participants") upon the terms set out in the Share Option Scheme.

The subscription price of a Share payable on the exercise of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price shall at least be the highest of: (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities ("Business Day"); and (iii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of offer or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme. HK\$1.00 is payable by an Eligible Participant on acceptance of an offer of option. The period within which the Shares must be taken up under an option shall be determined by the Board at its absolute discretion and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme. There is no general requirement that an option must be held for any minimum period before it can be exercised.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other schemes of our Group must not in aggregate exceed 10% of the total number of Shares in issue as at the date on which the Shares were listed on the main board of the Stock Exchange on 27 May 2015 (the "Limit"), i.e. 60,000,000 Shares representing approximately 9.65% of the issued Shares as at the date of this Annual Report. Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other schemes of the Group) will not be counted for the purpose of calculating the Limit. Subject to the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Company may refresh the Limit at any time provided that: (i) the Limit as refreshed does not exceed 10% of the Shares in issue as at the date of the approval by the refreshed Limit; (ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Limit as refreshed; and (iii) a circular containing the information and the disclaimer, respectively required under Rule 17.02(2)(d) and Rule 17.02(4) of the Listing Rules shall be despatched to the shareholders together with the notice of the relevant general meeting. Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme at any time shall not exceed 30% of the Shares in issue from time to time.

The total number of Shares issued and which fall to be issued upon exercise of the options granted under the Share Option Scheme and any other schemes of the Group (including both exercised and outstanding options) to each Eligible Participant in any period of 12 consecutive months up to and including the date of grant of the options shall not exceed 1% of the Shares in issue as at the date of grant of the options.

On 20 April 2016 and 5 June 2018 (the "Dates of Grant"), options to subscribe for an aggregate of 24,700,000 Shares and 23,100,000 Shares were granted respectively to certain Eligible Participants under the Share Option Scheme. The exercise price in respect of each option granted under the Share Option Scheme on 20 April 2016 and 5 June 2018 is HK\$0.88 and HK\$1.12 per share respectively. The adjusted closing price of the Shares immediately before the Dates of Grant was HK\$0.866 and HK\$1.120 per Share respectively. There was no Eligible Participant with options granted in excess of the individual limit.

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During the year ended 31 December 2019, out of the above share options granted, none was cancelled while 1,720,000 share options exercised and 2,700,000 share options lapsed.

The fair values of the share options granted on 20 April 2016 and 5 June 2018 were HK\$7,823,400 (equivalent to approximately RMB6,780,000) and HK\$10,279,500 (equivalent to approximately RMB8,678,000) respectively, of which the Group recognised a share option expenses of approximately RMB4,245,000 (2018: RMB3,531,000) during the year ended 31 December 2019.

The fair values of the share options granted on 20 April 2016 and 5 June 2018 were estimated as at that date by an independent firm of professionally qualified valuers using the binomial options pricing model and taking into account the terms and conditions upon which options were granted.

The binomial option pricing model required input of subjective assumptions such as the expected stock price volatility. Change in subjective input may materially affect the fair value estimates.

The details of share options granted on 5 June 2018 under the Share Option Scheme are set out in the note 27 to the consolidated financial statements.

Particulars and movements of share options granted under the Share Option Scheme during year ended 31 December 2019 were as follows:

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding as at 31 December 2019
Directors								
Mr. Choi Hung Nang	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	1,400,000	-	-	-	1,400,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
Ms. Choi Kwan Li, Glendy	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	1,400,000	-	-	-	1,400,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
Mr. Choi Hon Ting, Derek	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	1,400,000	-	-	-	1,400,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
Mr. Liu Tom Jing-zhi	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	650,000	-	-	-	650,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	650,000	-	-	-	650,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	700,000	-	-	-	700,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
Mr. Lao Kam Chi	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	650,000	-	-	-	650,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	650,000	-	-	-	650,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	700,000	-	-	-	700,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000

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Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding as at 31 December 2019
Mr. Yu Ronghua <i>(passed away on 13 January 2018)</i>	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	650,000	-	-	(650,000)	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	650,000	-	-	(650,000)	-
Mr. Alain Vincent Fontaine	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
Mr. Chan Lewis	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	100,000	-	-	-	100,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	100,000	-	-	-	100,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	100,000	-	-	-	100,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
Mr. Law Wang Chak, Waltery <i>(resigned on 1 May 2019)</i>	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	130,000	-	(130,000)	-	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	140,000	-	(140,000)	-	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	200,000	-	-	(200,000)	-
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	200,000	-	-	(200,000)	-
Mr. Li Zongjin	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	100,000	-	-	-	100,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	100,000	-	-	-	100,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	100,000	-	-	-	100,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
Mr. Lee Wai Yat, Paco	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	100,000	-	(100,000)	-	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	100,000	-	(100,000)	-	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	100,000	-	(100,000)	-	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
Mr. Fok Wai Shun, Wilson	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	130,000	-	-	-	130,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	130,000	-	-	-	130,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	140,000	-	-	-	140,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	200,000	-	-	-	200,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	200,000	-	-	-	200,000
				36,870,000	-	(570,000)	(1,700,000)	34,600,000
Other employees								
in aggregate	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	600,000	-	(300,000)	(100,000)	200,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	800,000	-	(450,000)	(100,000)	250,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	800,000	-	(400,000)	(100,000)	300,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,550,000	-	-	(350,000)	2,200,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,550,000	-	-	(350,000)	2,200,000
				7,300,000	-	(1,150,000)	(1,000,000)	5,150,000
				44,170,000	-	(1,720,000)	(2,700,000)	39,750,000

Note: The weighted average closing price immediately before the exercise of the share options was HK\$1.24.

REPORT OF THE DIRECTORS

Directors' Interests in Transactions, Arrangements or Contracts

No Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries and a Controlling Shareholder or any of its subsidiaries was a party subsisting during or at the end of the year ended 31 December 2019.

Directors' Interests in Competing Business

During the year ended 31 December 2019 and up to the date of this Annual Report, none of the Directors had an interest in a business, which competes or may compete with the business of the Group under the Listing Rules.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

Equity-linked Agreements

Save for the Share Option Scheme as mentioned above, the Company has not entered into any equity-linked agreements during the year ended 31 December 2019.

Permitted Indemnity Provision

Pursuant to the Articles of Association, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his/her duty, or supposed duty, in his/her respective offices or trusts.

There is appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company.

Directors' Rights to Acquire Shares or Debentures

Apart from the Share Option Scheme and the exercise of share options as mentioned above, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company and any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company nor exercised any such right.

Connected Transactions and Continuing Connected Transactions

During the year ended 31 December 2019, the Group had not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of the Listing Rules.

Related Party Transactions

Details of the related party transactions undertaken by the Group during the year ended 31 December 2019 are set out in note 33 to the consolidated financial statements. These related party transactions either did not constitute connected transactions/ continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under the Listing Rules.

REPORT OF THE DIRECTORS

Subsequent Events

Save as disclosed in this Annual Report, there were no significant subsequent events after the reporting period of the Group.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this Annual Report.

Auditor

PricewaterhouseCoopers had been appointed as the Company's auditor on 14 July 2016 following the resignation of KPMG. The consolidated financial statements for the year ended 31 December 2019 of the Group have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Choi Hung Nang

Chairman

Hong Kong

27 March 2020

SUSTAINABILITY HIGHLIGHTS

In response to more stringent environmental protection requirements across the globe, the Group has been playing an important role in shaping a sustainable society through manufacturing more eco-friendly asphalt mixing plants and consistently reinforcing its sustainability strategy.

With an aim to scale up positive efforts to green operations, the Group has proactively taken part in a number of environmental initiatives such as becoming members of green groups such as the Green Council and Friends of the Earth, obtaining green loan financing to support the operation of asphalt mixing recycling plants, and giving pledges to promote sustainable procurement and enhance environmental awareness of stakeholders. These measures have assisted the Group in laying the foundation for sustainable business.

Echoing with the reporting theme of “Reinforcing governance in support of building a sustainable value chain”, the Group’s sustainability report will present its sustainability governance performance that maintains green and people-centred business operation and makes a positive impact to the society from the inside out. The Group will remain dedicated to effective stakeholder engagement and corporate social responsibility.

The sustainability performance is highlighted as follows:

Safe Production

- OHSAS 1800:2007 Occupational Health and Safety Management certification
- Zero work fatality rate for 5 consecutive years

Innovative and Green Manufacturing

- Application of geothermal heat pumps in the Research and Development Centre
- Use of industrial robots, smart meters, and computer numerical control
- Continuous replacement of more energy-efficient machines
- Introduction of LED-integrated lighting fixtures across factory
- Research on low-nitrogen combustion technology to improve air quality

Staff Training

- 80 Topics – 11 hours on safety and security, 265 hours on professional knowledge, 28.5 hours on management and operation

Patents and Copyrights

- 109 registered patents – 4 invention patents, 105 utility model patents
- 31 combustion technology patents that reduce air pollutant emissions
- 26 software copyrights

Environmental Performance

- 6.44 tCO₂e/RMB'M revenue
- 77% of waste recycled
- 17.03 kWh ('000)/RMB'M revenue

Recognition and Awards

- Caring Company
- EcoChallenger
- Hong Kong Green Awards 2019 – Corporate Green Governance Award
- 3 Years+ EcoPioneer
- Green-design Industrial Product Demonstration Enterprise
- Green Finance Certification Mark issued by HKQAA

The full sustainability report shall be published on the Group’s website within 3 months after the release of this annual report.

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF D&G TECHNOLOGY HOLDING COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of D&G Technology Holding Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 120, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Recoverability of trade receivables
- Provision for slow-moving inventories

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Recoverability of trade receivables</p> <p><i>Refer to Note 5(a) Recoverability of trade receivables and Note 20 Trade and bills receivables to the consolidated financial statements</i></p> <p>The Group's trade receivables are principally derived from its sales of asphalt mixing plants and spare parts, and operating lease income of asphalt mixing plants.</p> <p>As at 31 December 2019, the Group's gross trade receivables from third party customers amounted to RMB307 million. The Group is exposed to risk of impairment of trade receivables. As at 31 December 2019, the expected credit loss amounted to RMB86 million.</p> <p>Management exercised judgements on estimating the level of expected credit losses by assessing future cash flows of trade receivables including a probability weighted amount determined by evaluating a range of possible outcomes based on rolling historical credit loss experience by aging pattern, credit and settlement history, financial capability of its customers, recent settlements received and the current market situation, and applying them to the receivables held at year end.</p> <p>The impact of economic factors, both current and future, is considered in assessing the likelihood of recovery from customers.</p> <p>We focused on this area because provision for impairment charge may have significant impact on the Group's consolidated statement of profit or loss for the year. Significant judgements and estimations are involved in determining the recoverability of trade receivables and the adequacy of impairment provision.</p>	<p>Our procedures in relation to trade receivables included:</p> <ul style="list-style-type: none">• Testing controls over the billing and collection cycle of the Group;• Testing the trade receivables ageing analysis used to assess the recoverability of receivables;• Assessing the appropriateness of the credit loss provisioning methodology used by the Group;• Assessing the estimates used to determine the expected credit losses by considering cash collection performance against historical trends;• Reviewing minutes of the board of directors' meetings relating to the recoverability of trade receivables; and• Discussing with management to understand the nature and the judgment involved in estimating the expected credit loss provision on trade receivables and corroborating with correspondence with the customers. <p>Based on the work performed, we found that management's assessments of the recoverability of trade receivables are supported by available evidence.</p>

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Provision for slow-moving inventories</p> <p><i>Refer to Note 5(b) Provision for slow-moving inventories and Note 19 Inventories to the consolidated financial statements</i></p> <p>At 31 December 2019, the carrying value of the Group's inventories amounted to RMB271 million, which represented approximately 29% of the Group's total assets. The cost of inventories may not be recoverable if they are aged and damaged, or become obsolete, or if their selling prices have declined.</p> <p>Management applied a provision methodology for slow-moving inventories based on inventory ageing profiles, historical utilisation rates and committed sales orders and made general provision for long aged inventories and specific provision on inventories identified as not utilisable.</p> <p>We focused on this area due to the magnitude of the inventories balance to the financial position of the Group. Significant judgements and estimations are involved in determining the adequacy of provision for slow-moving inventories.</p>	<p>Our procedures in relation to inventories included:</p> <ul style="list-style-type: none">• Understanding and validating the control procedures performed by management, including its periodic review on inventory obsolescence.• Observing management's inventory counts to identify whether there are any damaged or obsolete inventories.• Testing on a sample basis the accuracy of the ageing profile of individual inventory item by checking to the relevant good receipt documents.• Testing on a sample basis the subsequent usage or sales of selected inventory items, obtained through the usage or sales reports subsequent to the year end as a basis to identify inventory obsolescence. Where there are no subsequent usage or sales of the respective items after year end, we discussed with management their assessment on estimated future utilisation, corroborating explanations with the inventory ageing, sales orders and marketability of the relevant finished goods.• Evaluating management's basis for the general and specific inventory provision, the appropriateness of management's provision methodology and the outcome of management's estimations, analysis made by management and methodology applied to identify inventories that were not utilisable. <p>Based on the work performed, we found that management's assessment on provision for obsolete or slow moving inventories as at 31 December 2019 is supported by available evidence.</p>

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chu Wang Hay.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Revenue	6	446,426	328,155
Cost of sales	8	(358,697)	(230,031)
Gross profit		87,729	98,124
Other income and other (losses)/gains, net	7	(359)	3,240
Distribution costs	8	(84,764)	(60,572)
Administrative expenses	8	(75,302)	(75,290)
Net reversal of/(provision for) impairment losses on financial assets	8	34,768	(24,238)
Operating loss		(37,928)	(58,736)
Finance income, net	10	8,853	9,622
Share of profit of associates	18	2,164	472
Loss before income tax		(26,911)	(48,642)
Income tax (expense)/credit	11	(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			
– basic (RMB cents)	12	(5.64)	(7.81)
– diluted (RMB cents)		(5.64)	(7.81)

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Loss for the year	(35,076)	(48,412)
Other comprehensive (loss)/income:		
<i>Item that may be reclassified to profit or loss:</i>		
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)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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	13	165,245	189,497
Land use right	15	–	4,965
Intangible assets	16	3,809	2,911
Investment in associates	18	54,883	51,972
Amount due from an associate	33(b)	4,670	–
Deposits and prepayments	21	800	160
Deferred income tax assets	25	18,672	21,646
Total non-current assets		248,079	271,151
Current assets			
Inventories	19	271,381	289,497
Contract assets	6	1,514	–
Trade and bills receivables	20	226,885	233,965
Amount due from an associate	33(b)	5,058	–
Prepayments, deposits and other receivables	21	36,375	36,629
Pledged bank deposits	22	47,413	65,015
Cash and cash equivalents	22	94,912	64,407
Income tax recoverable		–	1,552
Total current assets		683,538	691,065
Total assets		931,617	962,216
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	4,912	4,897
Other reserves		571,681	566,476
Retained earnings		90,294	125,791
Total equity		666,887	697,164

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	23	785	–
Lease liabilities	14	114	–
Deferred tax liabilities	25	3,500	–
Total non-current liabilities		4,399	–
Current liabilities			
Borrowings	23	76,766	60,102
Trade and other payables	24	148,991	175,141
Contract liabilities	24	33,044	29,809
Lease liabilities	14	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

The consolidated financial statements on pages 52 to 120 were approved by the Board of Directors on 27 March 2020 and signed on its behalf.

Choi Hung Nang
Director

Choi Kwan Li, Glendy
Director

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company							Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	
Balance at 1 January 2018	4,897	419,617	65,290	5,873	43,963	24,348	176,828	740,816
Change in accounting policies	-	-	-	-	-	-	(2,193)	(2,193)
Balance at 1 January 2018, restated	4,897	419,617	65,290	5,873	43,963	24,348	174,635	738,623
Comprehensive income:								
Loss for the year	-	-	-	-	-	-	(48,412)	(48,412)
Other comprehensive income:								
Currency translation differences	-	-	-	-	-	3,422	-	3,422
Total comprehensive income/(loss)	-	-	-	-	-	3,422	(48,412)	(44,990)
Transactions with owners in their capacity as owners								
Employee share option scheme – grant of share options	-	-	-	3,531	-	-	-	3,531
Transfer to statutory reserve	-	-	-	-	432	-	(432)	-
Total transactions with owners	-	-	-	3,531	432	-	(432)	3,531
Balance at 31 December 2018	4,897	419,617	65,290	9,404	44,395	27,770	125,791	697,164
Balance at 1 January 2019	4,897	419,617	65,290	9,404	44,395	27,770	125,791	697,164
Change in accounting policies (Note 3)	-	-	-	-	-	-	(201)	(201)
Balance at 1 January 2019, restated	4,897	419,617	65,290	9,404	44,395	27,770	125,590	696,963
Comprehensive income:								
Loss for the year	-	-	-	-	-	-	(35,076)	(35,076)
Other comprehensive income:								
Currency translation differences	-	-	-	-	-	(542)	-	(542)
Total comprehensive loss	-	-	-	-	-	(542)	(35,076)	(35,618)
Transactions with owners in their capacity as owners								
Employee share option scheme – grant of share options	-	-	-	4,245	-	-	-	4,245
Employee share option scheme – exercise of share options (Note 27)	15	1,282	-	-	-	-	-	1,297
Employee share option scheme – lapse of share options	-	-	-	(436)	-	-	436	-
Transfer to statutory reserve	-	-	-	-	656	-	(656)	-
Total transactions with owners	15	1,282	-	3,809	656	-	(220)	5,542
Balance at 31 December 2019	4,912	420,899	65,290	13,213	45,051	27,228	90,294	666,887

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	30(a)	29,147	70,116
Income tax refunded/(paid)		756	(6,938)
Net cash generated from operating activities		29,903	63,178
Cash flows from investing activities			
Payments for purchases of intangible assets		(1,769)	–
Payments for purchases of property, plant and equipment		(14,505)	(33,761)
Proceeds from disposal of property, plant and equipment	30(d)	7,635	–
Capital injection to an associate	18	(1,000)	–
Net cash outflow as a result of disposal of subsidiaries	30(e)	–	(2,249)
Interest received	10	1,736	617
Net cash used in investing activities		(7,903)	(35,393)
Cash flows from financing activities			
Issuance of shares in respect of exercise of share options		1,297	–
Proceeds from borrowings	30(b)	72,498	43,620
Repayments of borrowings	30(b)	(55,991)	(45,509)
Principal elements of lease payments	30(b)	(1,669)	–
Addition of restricted bank deposits pledged for borrowings		(1,858)	(4,648)
Interest paid	10	(5,316)	(2,497)
Net cash generated from/(used in) financing activities		8,961	(9,034)
Net increase in cash and cash equivalents		30,961	18,751
Cash and cash equivalents at beginning of the year		64,407	42,708
Exchange (loss)/gain on cash and cash equivalents		(456)	2,948
Cash and cash equivalents at end of the year		94,912	64,407

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of D&G Technology Holding Company Limited and its subsidiaries.

2.1 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

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

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

Standards	Subject
Annual Improvements Project (Amendments)	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

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 3. 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	To be determined
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.

2.2 Principles of consolidation and equity accounting

2.2.1 *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost.

2.2.3 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the equity accounted investee have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investment is tested for impairment in accordance with the policy described in Note 2.10.

2.2.4 Changes in ownership interests

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

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 that make strategic decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Group's presentation currency. The Company's functional currency is Hong Kong Dollars ("HK\$").

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency 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 translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

All foreign exchange gains and losses are presented in the consolidated statement of profit or loss on a net basis within "other income and other (losses)/gains, net".

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(d) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.6 Land use right

Until 31 December 2018, land use right is presented separately in the consolidated statement of financial position. From 1 January 2019, land use right is classified as a sub-class of right-of-use assets and presented within property, plant and equipment upon the adoption of HKFRS 16 (Note 3). The adoption of HKFRS 16 does not have any impact on recognition and measurement of land use right.

Land use right is stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years. Amortisation of land use right is calculated on a straight-line basis over the period of the land use right.

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

Plant and buildings	10 - 20 years
Leasehold improvements	over the shorter of the unexpired term of the lease and 5 years
Machinery	3 - 10 years
Office equipment and furniture	4 - 10 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. 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 (Note 2.10). Gains or losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "other income and other (losses)/gains, net" in the consolidated statement of profit or loss.

2.8 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost. Cost includes the costs of construction of buildings and the costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.7.

2.9 Intangible assets

Separately acquired computer software is recognised at historical cost at the acquisition date. Computer software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives ranging from 5 years to 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets as those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.11.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.11.3 Measurement of financial assets

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other income and other (losses)/gains, net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

2.11.4 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less provision for impairment. See Note 2.11.4 and Note 4.1 (b) for a description of the Group's impairment policies.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade and others payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.18 Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks and third-party leasing companies on behalf of certain subsidiaries and customers. The Group does not recognise liabilities for financial guarantee at inception, but performs a liability adequacy test at each reporting date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee would result in a present legal or constructive obligation. If the liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the consolidated statement of profit or loss immediately.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loans to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the consolidated statement of financial position in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.22 Employee benefits

(a) *Defined contribution schemes*

The Group companies operate various defined contribution schemes. A defined contribution plan is a pension plan under which the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) *Performance bonus*

The expected cost of bonus payment is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(c) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of the consolidated statement of financial position.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.23 Equity-settled share-based payment transactions

The Group operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and retaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specific vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.23 Equity-settled share-based payment transactions (Continued)

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2.24 Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods or rendering of services in the ordinary course of the Group's activity.

Revenue is recognised when or as the control of the good or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset that an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition (Continued)

If control of the goods or services is transferred over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services. Specific criteria where revenue is recognised are described below:

(i) *Sale of goods*

The Group manufactures and sells asphalts mixing plants, spare parts, modified equipment, bitumen, bitumen tanks and equipment. Revenue is recognised when the control of the products are transferred to the customers at a point in time, being products are delivered to and installed at the customers' premises and accepted by the customers, the customers have full discretion over the channel and price to sell the products and the use of the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Accordingly, the risks of obsolescence and loss have been transferred to the customers.

A receivable is recognised when the goods are delivered to and accepted by the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(ii) *Rental income from operating leases*

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

(iii) *Financing components*

The Group adjusts the transaction prices at initial recognition for the time value of money in respect of certain sales of asphalts mixing plants as the Group expects that the period between the transfer of the promised goods to the customer and the payment by the customer exceeds one year. The Group does not adjust the transaction prices for the time value of money in respect of other sale transactions as the Group does not expect the collection of related trade receivables exceeds one year.

2.27 Loss per share

(i) *Basic loss per share*

Basic loss per share is calculated by dividing:

- the loss attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.27 Loss per share (Continued)

(ii) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.28 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

2.29 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grant relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.30 Rental income from investment property

Rental income from investment property is recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

2.31 Leases

The Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 3.

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to the consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset presented within property, plant and equipment and a corresponding liability at the date at which the leased asset is available for use by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.31 Leases (Continued)

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of offices and staff quarters are recognised on a straight-line basis as an expense in the consolidated statement of profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 6). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.31 Leases (Continued)

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

The method for allocating gross earnings to accounting periods is referred to as the "actuarial method". The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.32 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, as appropriate.

3 Changes in accounting policies

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

As indicated in Note 2.1 above, 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. The new accounting policies are disclosed in Note 2.31.

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 asset 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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Changes in accounting policies (Continued)

(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

	RMB'000
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and the business environment of the industry in which the Group operates, and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Currency risk

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to RMB, HK\$, United States Dollars ("USD"), Euro ("EUR"), Pakistani Rupees ("PKR") and Singapore Dollars ("SGD"). Currency risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

As at 31 December 2019, certain RMB denominated cash and deposits were held by Hong Kong group entities, the functional currency of which is HK\$ (2018: Same). If RMB had strengthened/weakened by 5% (2018: Same) against HK\$ with all other variables held constant, the post-tax loss (2018: Same) for the year would have been RMB339,000 lower/higher (2018: RMB291,000 lower/higher), mainly as a result of foreign exchange gains/losses on these RMB denominated cash and deposits.

The currency risk on assets and liabilities denominated in USD which were mainly held by Hong Kong group entities, the functional currency of which is HK\$, is considered to be minimal as HK\$ is currently pegged to USD (2018: Same).

The currency risk on assets and liabilities denominated in EUR, PKR and SGD is considered to be minimal as the Group had limited EUR, PKR and SGD denominated assets and liabilities (2018: Same).

The currency risk on assets and liabilities denominated in HK\$ which were held by PRC group companies, the functional currency of which is RMB, is considered to be minimal as these group companies had limited HK\$ denominated assets and liabilities (2018: Same).

(ii) Cash flow interest rate risk

The Group's interest rate risk arises from bank borrowings. Except for the bank borrowings of RMB20,293,000 (2018: RMB25,060,000) which were at fixed rates, other borrowings of the Group were at floating rates (2018: Same). Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated statement of profit or loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

As at 31 December 2019, if interest rates on borrowings had been 100 basis points higher/lower (2018: Same) with all other variables held constant, post-tax loss (2018: Same) for the year would have been RMB478,000 higher/lower (2018: RMB293,000 higher/lower), mainly as a result of higher/lower interest expense on floating rate borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk of the Group mainly arises from deposits with banks and financial institutions, as well as credit exposures to customers such as trade receivables and other receivables.

The carrying amount of these balances in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets.

Majority of the Group's bank deposits are placed in those banks and financial institutions which are independently rated with a high credit rating. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

Debtors of the Group may be affected by the unfavorable economic conditions and the lower liquidity situation, which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimate of expected future cash flows in their impairment assessments.

The credit quality of the customers is assessed based on their financial position, past experience and other factors. The Group has policies in place to ensure that sales of products are made to customers with appropriate credit history.

As at 31 December 2019, the top 5 trade receivable balances account for 33% (2018: 27%) of the Group's total year end gross trade receivable balances.

Impairment of financial assets

The Group has the following financial assets that are subject to HKFRS 9's expected credit loss model:

- Cash and cash equivalents
- Pledged bank deposits
- Trade receivables
- Other receivables
- Amount due from an associate

While cash and cash equivalents and pledged bank deposits are subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables (Continued)

Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining trade receivables based on shared credit risk characteristics and days past due and collectively assessed for likelihood of recovery, taking into account the customers' past settlement pattern, existing market conditions as well as forward looking estimates at the end of each reporting period.

The following table presents the balances of gross carrying amounts and the loss allowance in respect of trade receivables assessed on individual and collective basis as at 31 December 2019 and 2018:

	Gross carrying amount RMB'000	Weighted average expected credit loss rates	Loss allowance RMB'000
As at 31 December 2019			
Individual basis	28,636	100%	28,636
Collective basis			
Within 1 year	165,272	5%	8,586
1 to 2 years	60,695	16%	9,754
2 to 3 years	31,083	75%	23,227
Over 3 years	20,818	77%	16,126
	306,504		86,329
As at 31 December 2018			
Individual basis	56,556	92%	52,080
Collective basis			
Within 1 year	173,832	6%	9,894
1 to 2 years	79,561	37%	29,133
2 to 3 years	26,633	41%	10,803
Over 3 years	23,286	82%	19,187
	359,868		121,097

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables (Continued)

The changes in loss allowances for all trade receivables are set out as follows:

	2019 RMB'000	2018 RMB'000
Opening loss allowance as at 1 January	121,097	93,166
(Decrease)/increase in loss allowance recognised in consolidated profit or loss during the year	(34,768)	27,931
At 31 December	86,329	121,097

Impairment losses on trade receivables are presented as net reversal of/(provision for) impairment losses on financial assets within operating profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost

For other financial assets at amortised cost including deposits, other receivables, bills receivables and amount due from an associate, management considers that their credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The credit risk on these financial assets is assessed by management to be minimal after considering the financial conditions of these entities. Accordingly, the impairment provision is determined based on the 12-month expected credit loss which is zero.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. The directors aim to maintain flexibility in funding by keeping credit lines available.

Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Surplus cash held by the Group over and above balances required for working capital management is invested in interest-bearing bank accounts and bank deposits with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The following tables analyses the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the date of the consolidated statement of financial position) and the earliest date the Group can be required to pay.

	At 31 December 2019			Carrying amount on consolidated statement of financial position RMB'000
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	
Borrowings	77,012	792	77,804	77,551
Lease liabilities	646	116	762	749
Trade and other payables (Note)	142,241	-	142,241	142,241
	219,899	908	220,807	220,541

	At 31 December 2018			Carrying amount on consolidated statement of financial position RMB'000
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	
Borrowings	62,389	-	62,389	60,102
Trade and other payables (Note)	169,851	-	169,851	169,851
	232,240	-	232,240	229,953

Note: The balance presented above excludes accrued salaries, contract liabilities and other provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below summarises the maturity analysis of the Group's bank loans with a repayable on demand clause based on agreed scheduled repayments set out in the loan agreements.

	2019 RMB'000	2018 RMB'000
Within 1 year	66,798	49,389
Between 1 and 2 years	1,719	918
Between 2 and 5 years	9,034	9,795
	77,551	60,102

Taking into account the Group's financial position, the Directors do not consider that it is probable that the banks will exercise their discretions to demand immediate repayment. The Executive Directors believe that such loans will be repaid in accordance with the scheduled repayment dates as set out in the loan agreements.

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital by maintaining a net cash position throughout the year.

4.3 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including trade and bills receivables, deposits and other receivables, amount due from an associate, cash and cash equivalents, pledged bank deposits, trade and bills payables, other payables, lease liabilities and borrowings approximate their fair values.

4.4 Offsetting financial assets and financial liabilities

No financial assets and financial liabilities were subject to offsetting, enforceable master netting arrangements and similar agreements as at 31 December 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Recoverability of trade receivables

Provision for expected credit losses is made when the Group will not collect all amounts due. The provision is determined by grouping together trade debtors with similar risk characteristics and collectively or individually assessing them for likelihood of recovery. The provision reflects lifetime expected credit losses i.e. possible default events over the expected life of the trade receivables, weighted by the probability of that default occurring. Judgment has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of customers and the likelihood of recovery assessed on a combination of collective and individual basis as relevant. While the provision is considered appropriate, changes in estimation basis or economic conditions could lead to a change in the level of provision recorded and consequently on the charge or credit to profit or loss.

(b) Provision for slow-moving inventories

The Group estimates the provision for inventory based on inventory ageing profiles, historical inventory utilisation rates and committed sales orders and made specific and general provision for slow-moving inventories. Provision for inventory is recorded where events or changes in circumstances indicate that the carrying cost of inventories will not be fully realised. The quantification of inventory provision requires the use of estimates and judgement. Where the outcomes are different from the original estimates, such differences will impact the carrying value of inventories and provision for inventory in the years in which such estimates have been changed.

(c) Useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment and intangible assets (other than goodwill). This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortisation lives and therefore depreciation and amortisation expense in future periods.

(d) Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable such as declines in asset's market value and significant increase in interest rates that may affect the discount rate used in calculating the asset's recoverable amount. The recoverable amounts have been determined based on the higher of fair value less costs of disposal calculations and value in use calculations. These calculations require the use of judgements and estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Critical accounting estimates and judgments (Continued)

(e) Current and deferred income tax provision

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets in the period in which such estimates have been changed.

6 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 RMB'000	2018 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (Continued)

(a) Revenue from external customers by country

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (Continued)

(c) Information about major customer

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

	2019 RMB'000	2018 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.

(d) Contract liabilities

The Group recognised the following revenue related contract liabilities as at 31 December 2019:

	2019 RMB'000	2018 RMB'000
Contract liabilities	33,044	29,809

(i) Significant change in contract liabilities

Contract liabilities of the Group mainly represent the advance payments made by customers while the underlying goods or services are yet to be delivered. Contract liabilities increased as a result of the fluctuation in sales orders with advance payments.

(ii) Unsatisfied performance obligations

During the year ended 31 December 2019, all brought-forward contract liabilities at the beginning of the financial year were fully recognised as revenue (2018: Same).

(iii) Assets recognised from incremental costs to obtain a contract

As at 31 December 2019, contract assets amounted to RMB1,514,000 (2018: Nil) was recognised, representing incremental costs to obtain or fulfil a contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Other income and other (losses)/gains, net

	2019 RMB'000	2018 RMB'000
Other income		
Rental income from investment property	–	162
Government grants (Note (i))	940	1,659
	940	1,821
Other (losses)/gains, net		
Net loss on disposal of property, plant and equipment	(478)	–
Fair value gain on revaluation of investment property (Note (ii))	–	760
Gain on disposal of subsidiaries (Note 30(e))	–	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 i: Government grants mainly represent operating subsidies. There were no unfulfilled conditions or other contingencies attached to these grants.

Note ii: The Group had investment property which was measured at fair value representing office premises located in Hong Kong as at 1 January 2018. During the year ended 31 December 2018, management changed the usage of investment property from leasing to own use and transfer the office premises to property, plant and equipment and recognised a fair value gain, representing the revaluation gain from 1 January 2018 to the date of the transfer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Expenses by nature

	2019 RMB'000	2018 RMB'000
Cost of inventories (Note 19)	290,391	188,723
Freight and transportation expenses	15,433	13,915
Employee benefit expenses (including directors' emoluments) (Note 9)	80,818	77,678
Depreciation and amortisation (Notes 13 to 16)		
– 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 (Note 4.1(b))	(34,768)	27,931
Reversal of provision for impairment of other receivables (Note 21)	–	(3,693)
Provision for impairment of inventories (Note 19)	27,441	3,992
Write-off of property, plant and equipment (Note 13)	489	1,102
Provision for impairment of property, plant and equipment (Note 13)	5,870	–
Operating lease charges	–	2,822
Research and development costs	17,986	11,884
Auditor's remunerations		
– Audit services	1,858	1,686
– Non-audit services	79	74
Other expenses	56,098	43,634
Total cost of sales, distribution costs and administrative expenses and net (reversal of)/provision for impairment losses on financial assets	483,995	390,131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Employee benefit expenses (including directors' emoluments)

(a) Employee benefit expenses during the year are as follows:

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

Note:

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000.

The Group has no other material obligations for the payment of retirement benefits associated with the schemes beyond the annual contributions described above.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2018: four) directors whose emoluments are reflected in the analysis shown in Note 35. The emoluments payable to the remaining one (2018: one) senior management individual during the year are as follows:

	2019 RMB'000	2018 RMB'000
Basic salaries, other allowances and benefits in kind	1,497	1,322
Retirement scheme contributions	16	15
Share-based payment expenses	390	254
	1,903	1,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 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 (Note 33(a))	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

11 Income tax expense/(credit)

(a) Income tax expense/(credit)

	2019 RMB'000	2018 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 (Note 25)	6,474	(852)
	8,165	(230)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Income tax expense/(credit) (Continued)

(b) Numerical reconciliation of income tax expense/(credit) to prima facie tax payable

	2019 RMB'000	2018 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 operated 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 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 new technology enterprise" under the PRC corporate income tax law and relevant regulations and it is entitled to a preferential income tax rate of 15% (2018: 15%).
- (iii) Under the PRC corporate income tax law and relevant regulations, a 75% (2018: Same) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Property, plant and equipment

	Leasehold land RMB'000	Land use right RMB'000	Leased properties RMB'000	Plant and buildings RMB'000	Leasehold Improvements RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2019										
Opening net book amount	46,435	-	-	47,634	78	81,372	394	2,451	11,133	189,497
Adjustment for change in accounting policy (Note 3)	-	4,965	2,070	-	-	-	-	-	-	7,035
Restated opening net book amount	46,435	4,965	2,070	47,634	78	81,372	394	2,451	11,133	196,532
Additions	-	-	463	124	1,496	545	-	402	11,938	14,968
Disposals	-	-	-	-	-	(19,047)	-	-	-	(19,047)
Write-off	-	-	-	-	-	(477)	(12)	-	-	(489)
Early termination of a lease	-	-	(280)	-	-	-	-	-	-	(280)
Transfer from construction in progress	-	-	-	12,873	-	10,060	-	-	(22,933)	-
Impairment charge	-	-	-	-	-	(5,870)	-	-	-	(5,870)
Depreciation charge for the year	(57)	(130)	(1,560)	(3,565)	(372)	(14,766)	(302)	(674)	-	(21,426)
Exchange differences	822	-	-	62	18	(46)	2	(1)	-	857
Closing net book amount	47,200	4,835	693	57,128	1,220	51,771	82	2,178	138	165,245
At 31 December 2019										
Cost	47,363	6,533	2,871	79,756	2,174	117,692	1,918	7,157	138	265,602
Accumulated depreciation and impairment	(163)	(1,698)	(2,178)	(22,628)	(954)	(65,921)	(1,836)	(4,979)	-	(100,357)
Net book amount	47,200	4,835	693	57,128	1,220	51,771	82	2,178	138	165,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Property, plant and equipment (Continued)

	Leasehold land RMB'000	Plant and buildings RMB'000	Leasehold Improvements RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2018								
Opening net book amount	32,101	32,772	148	74,764	731	2,204	19,107	161,827
Additions	-	79	-	23,048	-	568	10,066	33,761
Write-off	-	(1,045)	-	(27)	-	(30)	-	(1,102)
Disposal of subsidiaries	-	-	-	(853)	-	(7)	-	(860)
Transfer from construction in progress	-	16,794	-	908	-	338	(18,040)	-
Transfer from investment property	12,123	878	-	-	-	-	-	13,001
Depreciation charge for the year	(43)	(2,025)	(75)	(16,238)	(357)	(630)	-	(19,368)
Exchange differences	2,254	181	5	(230)	20	8	-	2,238
Closing net book amount	46,435	47,634	78	81,372	394	2,451	11,133	189,497
At 31 December 2018								
Cost	46,538	66,687	644	144,963	2,008	6,765	11,133	278,738
Accumulated depreciation	(103)	(19,053)	(566)	(63,591)	(1,614)	(4,314)	-	(89,241)
Net book amount	46,435	47,634	78	81,372	394	2,451	11,133	189,497

Depreciation expense of RMB14,945,000 and RMB6,481,000 (2018: RMB13,588,000 and RMB5,780,000) has been charged to "cost of sales" and "administrative expenses", respectively.

As at 31 December 2019, leasehold land, land use right and leased properties amounted to RMB47,200,000, RMB4,835,000 and RMB693,000 respectively represented right-of-use assets of the Group upon adoption of HKFRS 16.

As at 31 December 2019, leasehold land and buildings with a total net book value of RMB37,042,000 and RMB8,605,000 were pledged as security for bank loans and bills payables, respectively (2018: RMB36,596,000 and RMB9,928,000) (Notes 23 and 24(ii)).

Land use right with net book value of RMB4,835,000 represented pieces of land located in the PRC with lease periods of 50 years expiring in 2056, which were pledged as security for bills payables as at 31 December 2019 (2018: RMB4,965,000) (Note 24(ii)).

The Group terminated an office lease contract prior to the end of the contractual lease term, resulted in a derecognition of right-of-use assets and lease liabilities amounted to RMB280,000 and RMB316,000 (Note 30(b)) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Leases

This note provides information for leases where the Group is a lessee.

The Group leases various offices primarily located in PRC and Hong Kong. Rental contracts are typically made for fixed periods of 2 to 5 years.

(i) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Right-of-use assets		
Land use right (Note)	4,835	4,965
Leasehold land (Note)	47,200	46,435
Leased properties	693	2,070
At 31 December	52,728	53,470
Lease liabilities		
Current	635	1,555
Non-current	114	716
	749	2,271

For the adjustments recognised upon the adoption of HKFRS 16 on 1 January 2019, please refer to Note 3(iv).

Note:

The Group has land lease arrangements in the PRC and leasehold land in Hong Kong.

Additions to the right-of-use assets during the year ended 31 December 2019 were RMB463,000 (Note 30(b)).

(ii) Amounts recognised in the consolidated statement of profit or loss

Depreciation expenses amounted to RMB1,560,000 (2018: Nil), RMB57,000 (2018: RMB43,000) and RMB130,000 (2018: RMB130,000) related to leased properties, leasehold land and land use right respectively were charged to the consolidated statement of profit or loss during the year ended 31 December 2019.

Interest expense in relation to lease liabilities amounted to RMB71,000 (2018: Nil) was charged to the consolidated statement of profit or loss and was included in finance costs.

The total cash outflow for leases for the year ended 31 December 2019 was RMB1,740,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Land use right

	2019 RMB'000	2018 RMB'000
At 1 January	4,965	5,095
Effect of adoption of HKFRS 16 (Note 3(iv))	(4,965)	–
Amortisation charge for the year (Note 8)	–	(130)
At 31 December	–	4,965

Land use rights with net book value of RMB4,965,000 as at 31 December 2018 represented pieces of land located in the PRC with lease periods of 50 years expiring in 2056, which were pledged as security for bills payables (Note 24(ii)).

16 Intangible assets – computer software

	RMB'000
Year ended 31 December 2018	
Opening net book amount	3,788
Amortisation charge (Note 8)	(885)
Exchange difference	8
Closing net book amount	2,911
At 31 December 2018	
Cost	5,641
Accumulated amortisation	(2,730)
Net book amount	2,911
Year ended 31 December 2019	
Opening net book amount	2,911
Additions	1,769
Amortisation charge (Note 8)	(874)
Exchange difference	3
Closing net book amount	3,809
At 31 December 2019	
Cost	7,413
Accumulated amortisation	(3,604)
Net book amount	3,809

The Group's intangible assets mainly represent computer software. Amortisation of approximately RMB874,000 (2018: RMB885,000) is included in administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 Subsidiaries

The directors are of the opinion that a complete list of the particulars of all the subsidiaries will be of excessive length and therefore the following list contains only the particulars of the subsidiaries which materially affect the results or assets of the Group.

Particulars of the principal subsidiaries as at 31 December 2019 and 2018 are shown as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Legal form	Particulars of issued share capital/ paid-in capital	Proportion of equity interest directly held by the Company	Proportion of equity interest held by the Group
Rich Benefit International Limited ("Rich Benefit") (萬利國際有限公司)	British Virgin Islands	Investment holding	Limited liability	100 shares of US\$1 each (2018: Same)	100% (2018: Same)	100% (2018: Same)
BW Enterprise Company Limited ("BW Enterprise") (百威企業有限公司)	Hong Kong	Investment holding and sales of asphalt mixing plants	Limited liability	HK\$30,000,000 (2018: Same)	– (2018: Same)	100% (2018: Same)
Langfang D&G* (廊坊德基機械科技有限公司)	The PRC	Manufacture of asphalt mixing plants	Foreign investment enterprise with limited liability	Registered and paid-in capital of RMB200,000,000 (2018: Same)	– (2018: Same)	100% (2018: Same)
Tianjin D&G Machinery Equipment Leasing Company Limited ("TJDG")* (天津德基機械設備租賃有限公司)	The PRC	Leasing of asphalt mixing plants	Limited liability	Registered and paid-in capital of RMB2,563,680 (2018: Same)	– (2018: Same)	100% (2018: Same)
Primach Technology Pte Ltd ("Primach")	Singapore	Sales of asphalt mixing plants	Limited liability	SGD10,000 (2018: Same)	– (2018: Same)	100% (2018: Same)
D&G Machinery Pakistan Co. (Private) Limited	Pakistan	Leasing of asphalt mixing plants	Limited liability	10,000 shares of PAK10 each (2018: Same)	– (2018: Same)	99.98% (2018: Same)
Super Diamond Group Ltd	British Virgin Islands	Leasing of property	Limited liability	100 shares of US\$1 each (2018: Same)	– (2018: Same)	100% (2018: Same)

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

Except for D&G Machinery Pakistan Co. (Private) Limited, all subsidiaries of the Group are wholly-owned. There was no material non-controlling interest as at 31 December 2019 (2018: Same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Investment in associates

The movement of the investment in associates during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	51,972	–
Additions	1,000	51,500
Share of profits	2,164	472
Elimination of unrealised profit	(253)	–
Balance at 31 December	54,883	51,972

Set out below is the associates of the Group as at 31 December 2019 and 2018 which, in the opinion of the directors, is material to the Group. The entities listed below have paid-in capital consisting solely of equity interests, which are held indirectly by the Group.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of relationship	Measurement method	Carrying Amounts	Carrying Amounts
					2019 RMB'000	2018 RMB'000
Topp Financial Leasing (Shanghai) Co., Ltd. (拓普融資租賃(上海) 有限公司) (Note a)	The PRC	33.33% (2018: 33.33%)	Associate	Equity method	54,013	51,972
Sichuan Rui Tong De Long New Materials Technology Limited (四川瑞通德隆新材料 科技有限公司) (Note b)	The PRC	40% (2018: N/A)	Associate	Equity method	870	–

(a) Topp Financial Leasing (Shanghai) Co., Ltd. (“Shanghai Topp”)

Pursuant to an investment agreement dated 4 May 2018 between the Group, Kerry Logistics (China) Investment Company Limited (“Kerry Logistics”) and Topp Financial Leasing (Shanghai) Co., Ltd. (“Shanghai Topp”), (i) the Group agreed to transfer approximately 28.57% equity interest in Shanghai Topp to Kerry Logistics for a cash consideration of RMB1.37 million; (ii) Kerry Logistics assumed the obligation to contribute the registered capital attributable to such 28.57% equity interest in the amount of RMB20 million; and (iii) Kerry Logistics agreed to contribute further capital of RMB80 million to Shanghai Topp. Upon completion of the above on 25 July 2018, Shanghai Topp was held as to approximately 33.33% by the Group and approximately 66.67% by Kerry Logistics. Shanghai Topp ceased to be a subsidiary and became an associate of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Investment in associates (Continued)

(a) Topp Financial Leasing (Shanghai) Co., Ltd. (“Shanghai Topp”) (Continued)

The tables below presents the summarised financial information of Shanghai Topp that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the associate but not the Company’s share of those amounts. They have been amended to reflect the adjustments made when using the equity method, including fair value adjustments and modifications for differences in accounting policies, where necessary.

Summarised balance sheet

	2019 RMB'000	2018 RMB'000
Current assets		
– Cash and cash equivalents	5,675	100,964
– Other current assets	195,997	66,193
Total current assets	201,672	167,157
Total non-current assets	624	7
Non-current liabilities	(338)	–
Current liabilities		
– Financial liabilities (excluding trade payables)	(17,014)	(11,283)
– Other current liabilities	(24,929)	(1,989)
Total current liabilities	(41,943)	(13,272)
Net assets	160,015	153,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Investment in associates (Continued)

(a) Topp Financial Leasing (Shanghai) Co., Ltd. (“Shanghai Topp”) (Continued)

Reconciliation to carrying amounts

	2019 RMB'000	2018 RMB'000
Net asset as at 25 July 2018 (being the date of application of equity accounting)	–	52,476
Capital injection from a controlling shareholder	–	100,000
Profit for the period from 25 July 2018 to 31 December 2018	–	1,416
Opening net assets as at 1 January 2019	153,892	–
Profit for the year ended 31 December 2019	6,123	–
Closing net assets	160,015	153,892
Group's equity interest	33.33%	33.33%
Group's share of net assets	53,333	51,292
Fair value gain on retained investment	680	680
Carrying amount as at 31 December 2019	54,013	51,972

Summarised income statement

	For the year ended 31 December 2019 RMB'000	For the period from 25 July 2018 to 31 December 2018 RMB'000
Revenue	9,496	2,614
Finance income, net	1,433	125
Depreciation and amortisation	(241)	(3)
Other operating expenses	(2,507)	(848)
Income tax expense	(2,058)	(472)
Profit and total comprehensive income for the year/period	6,123	1,416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Investment in associates (Continued)

(b) Sichuan Rui Tong De Long New Materials Technology Limited (“Sichuan RTDL”)

The Group injected capital of RMB1,000,000 into a newly established company, Sichuan RTDL on 19 June 2019. Sichuan RTDL is principally engaged in sales and leasing of asphalt mixing plants. As at 31 December 2019, Sichuan RTDL was held as to approximately 40% by the Group.

The Directors are of opinion that Sichuan RTDL is not material to the Group. Accordingly, summarised financial information is not presented.

There were no commitment and contingent liabilities in respect of the associates as at 31 December 2019 and 2018.

19 Inventories

	2019 RMB'000	2018 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Trade and bills receivables

	2019 RMB'000	2018 RMB'000
Trade receivables from third-parties	306,504	359,868
Loss allowance (Note 4.1(b))	(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 date of revenue recognition is as follows:

	2019 RMB'000	2018 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

(c) The carrying amounts of the Group's gross trade receivables were denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
RMB	305,755	353,449
HKD	-	5,669
PKR	749	750
	306,504	359,868

(d) Fair values of trade and bills receivables

The carrying amounts of trade and bills receivables approximated their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Trade and bills receivables (Continued)

(e) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Information about the loss allowance of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 4.1(b).

The creation and release of loss allowance has been disclosed in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

- (f) The maximum exposure to credit risk at the reporting date was the carrying values of each class of receivables mentioned above. The Group did not hold any other collateral as security.

21 Prepayments, deposits and other receivables

	2019 RMB'000	2018 RMB'000
Non-current:		
Deposits	800	160
	800	160
Current:		
Prepayments to suppliers	20,814	20,015
Other receivables and deposits	15,561	16,614
	36,375	36,629
Total prepayments, deposits and other receivables	37,175	36,789

The carrying amounts of deposits and other receivables approximated their fair values.

The carrying amounts of the Group's prepayments, deposits and other receivables were denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
RMB	29,908	29,689
HK\$	7,111	6,681
USD	31	235
Others	125	184
	37,175	36,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 Prepayments, deposits and other receivables (Continued)

The movement in the provision for impairment during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	–	3,693
Reversal of impairment	–	(3,693)
Balance at 31 December	–	–

As at 1 January 2018, a deposit of RMB3,693,000 was impaired as management considered the deposit as irrecoverable. During the year ended 31 December 2018, the amount was recovered and a reversal of impairment was included in the consolidated statement of profit or loss.

The maximum exposure to credit risk at the reporting date was the carrying values of each class of receivables mentioned above. The Group did not hold any collateral as security.

22 Cash and cash equivalents and pledged bank deposits

The Group's cash and bank balances comprise the following:

	2019 RMB'000	2018 RMB'000
Cash at bank and on hand	94,912	64,407
Restricted bank deposits pledged in respect of bank borrowings (Note 23)	31,833	29,975
Restricted bank deposits pledged in respect of bills payables (Note 24)	15,580	35,040
Total cash and cash equivalents and pledged bank deposits	142,325	129,422

The effective interest rate on bank deposits was 1.55% (2018: 1.78%) per annum.

The pledged bank deposits will be released upon the settlement of the relevant bills payables and borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Cash and cash equivalents and pledged bank deposits (Continued)

The Group's cash and bank balances were denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
RMB	99,824	76,125
HKD	8,553	26,965
EUR	5	22
PAK	4,636	1,068
USD	28,849	24,774
Others	458	468
	142,325	129,422

Significant restrictions

Bank balances of the Group as at 31 December 2019 amounting to RMB89,576,000 (2018: RMB91,974,000) were placed with certain banks in the PRC. The remittance of these balances is subject to the foreign exchange control restrictions imposed by the PRC government.

23 Borrowings

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

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

At 31 December 2019, all borrowings were at floating interest rates except for the bank loans of RMB20,293,000 (2018: RMB25,060,000) which were under fixed interest rates.

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).

At 31 December 2019, all bank loans were secured by the corporate guarantee provided by the Company (2018: Same). Borrowings of RMB57,258,000 (2018: RMB35,042,000) were secured by the pledged bank deposits of RMB31,833,000 (2018: RMB29,975,000) and property, plant and equipment of RMB37,042,000 (2018: RMB36,596,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 Borrowings (Continued)

At 31 December 2019, the Group's borrowings, without considering the repayment on demand clause, were repayable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	66,798	49,389
Between 1 and 2 years	1,719	918
Between 2 and 5 years	9,034	9,795
	77,551	60,102

The carry amounts of the Group's borrowings were denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
RMB	20,293	25,060
HKD	57,258	35,042
	77,551	60,102

The effective interest rates per annum of the Group's borrowings as at the reporting date in the respective currencies are as follows:

	2019	2018
RMB	5.22%	5.26%
HKD	2.57%	1.85%

At 31 December 2019, the Group had undrawn borrowing facilities amounting to RMB36,786,000 (2018: RMB24,902,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Trade and other payables and contract liabilities

	2019 RMB'000	2018 RMB'000
Current:		
Trade payables (i)	54,412	59,377
Bills payables (i)	49,883	89,782
	104,295	149,159
Amount due to a related party (Note 33(b))	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

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

	2019 RMB'000	2018 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

(ii) As at 31 December 2019, bills payables were secured by the Group's pledged bank deposits of RMB15,580,000 (2018: RMB35,040,000), property, plant and equipment of RMB8,605,000 (2018: RMB9,928,000) and land use right of RMB4,835,000 (2018: RMB4,965,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Trade and other payables and contract liabilities (Continued)

(iii) The carrying amounts of the Group's trade and other payables and contract liabilities are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
RMB	168,513	199,084
HKD	892	5,695
USD	12,594	95
Others	36	76
	182,035	204,950

25 Deferred income tax

The analysis of deferred income tax assets and liabilities is as follows:

	2019 RMB'000	2018 RMB'000
Deferred income tax assets	18,672	21,646
Deferred income tax liabilities	3,500	-

(a) Deferred tax assets

The balance comprises temporary differences attributable to:

	2019 RMB'000	2018 RMB'000
Provision for impairment of trade receivables	13,030	16,325
Unrealised profit	736	1,653
Accrued expenses and other payables	2,447	1,671
Product warranty provision	277	182
Others	2,182	1,815
	18,672	21,646

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Deferred income tax (Continued)

(a) Deferred tax assets (Continued)

The movement in deferred income tax assets during the year is as follows:

Deferred tax assets arising from:	Provision or impairment of trade receivables RMB'000	Unrealised profit RMB'000	Accrued expenses and other payables RMB'000	Product warranty provision RMB'000	Others RMB'000	Total RMB'000
Balance at 1 January 2018	14,752	2,316	1,582	211	1,489	20,350
Change in accounting policies	444	-	-	-	-	444
Balance at 1 January 2018, restated	15,196	2,316	1,582	211	1,489	20,794
Credited/(charged) to profit or loss	1,129	(663)	89	(29)	326	852
Balance at 31 December 2018	16,325	1,653	1,671	182	1,815	21,646
Balance at 1 January 2019 (Charged)/credited to profit or loss	16,325 (3,295)	1,653 (917)	1,671 776	182 95	1,815 367	21,646 (2,974)
Balance at 31 December 2019	13,030	736	2,447	277	2,182	18,672

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB12,794,000 (2018: RMB10,263,000) in respect of losses amounting to RMB67,778,000 (2018: RMB55,243,000) that can be carried forward against future taxable income. Total unrecognised tax losses of RMB51,764,000 (2018: RMB43,375,000) can be carried forward indefinitely while unrecognised tax losses of RMB168,000, RMB6,161,000, RMB5,539,000 and RMB4,146,000 will expire in 2021, 2022, 2023 and 2024 respectively (2018: RMB168,000, RMB6,161,000 and RMB5,539,000 will expire in 2021, 2022 and 2023, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Deferred income tax (Continued)

(b) Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2019 RMB'000	2018 RMB'000
Withholding tax on undistributed earnings	3,500	–

The movement in deferred income tax liabilities during the year is as follows:

Deferred tax liabilities arising from:	Withholding tax on undistributed earnings RMB'000
Balance at 1 January 2018, 31 December 2018 and 1 January 2019	–
Charged to profit or loss	3,500
Balance at 31 December 2019	3,500

The PRC corporate income tax law and relevant regulations impose a withholding tax at 5%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated from 1 January 2008 to overseas shareholders. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities in respect of the undistributed earnings of the Company's PRC subsidiaries of approximately RMB336,473,000 at 31 December 2019 (2018: RMB423,967,000) as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Share capital and share premium

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 (‘000)	Nominal value of ordinary shares HK\$’000	Nominal value of ordinary shares RMB’000	Share Premium RMB’000
At 1 January 2018, 31 December 2018 and 1 January 2019	620,238	6,203	4,897	419,617
Employee share option scheme: Shares issued in respect of exercise of share options (Note 27)	1,720	17	15	1,282
At 31 December 2019	621,958	6,220	4,912	420,899

27 Share-based payments

The Group has adopted a share option scheme (“Share Option Scheme”) under which directors, employees and other selected participants may be granted options to subscribe for shares of the Company as incentives for their services rendered to the Group pursuant to the shareholders’ resolution passed on 6 May 2015 and shall be valid and effective for a period of 10 years commencing from 6 May 2015.

On 20 April 2016, options to subscribe for an aggregate of 24,700,000 shares were granted to certain eligible participants under the Share Option Scheme. The exercise price in respect of each option granted under the Share Option Scheme on 20 April 2016 is HK\$0.88 per share. Options will be vested in three tranches on 1 October 2016, 2017 and 2018 if participants are still in employment with the Group on the respective dates.

On 5 June 2018 (the “Date of Grant”), options to subscribe for an aggregate of 23,100,000 shares were granted to certain eligible participants under the Share Option Scheme. The exercise price in respect of each option granted under the Share Option Scheme on the Date of Grant is HK\$1.12 per share. Options will be vested in two tranches on 1 October 2019 and 1 October 2020 if participants are still in employment with the Group on the respective dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Share-based payments (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price in HK\$ per share option	Number of share options ('000)
At 1 January 2018	0.88	22,370
Granted	1.12	23,100
Forfeited	0.88	(1,300)
At 31 December 2018 and 1 January 2019	1.01	44,170
Exercised	0.88	(1,720)
Forfeited	0.98	(2,700)
At 31 December 2019	1.01	39,750

As at 31 December 2019, out of the 39,750,000 outstanding options (2018: 44,170,000), 28,750,000 options were exercisable (2018: 21,070,000). As at 31 December 2019, 22,000,000 (2018: 23,100,000) and 17,750,000 (2018: 21,070,000) outstanding share options will expire on 4 June 2023 and 19 April 2021 respectively.

The fair value of the options granted during the year ended 31 December 2018 determined using the binomial valuation model was HK\$1.01 per option. The significant inputs into the model were the share price of HK\$1.12, exercise price shown above, the expected option life of five years, dividend yield of 0% and the risk-free interest rate of 2.21%. No options were granted during the year ended 31 December 2019.

28 Statutory reserves

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the profit after income tax (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. A PRC company is required to appropriate an amount of not less than 10% of statutory profits after income tax to statutory surplus reserves, prior to distribution of its post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's operations, or to increase the capital of the company. In addition, a company may make further contribution to the discretionary surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.

29 Dividends

The directors of the Company do not recommend the payment of a final dividend in respect of the year ended 31 December 2019 (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Note to consolidated statement of cash flows

(a) Cash generated from operations

	Note	2019 RMB'000	2018 RMB'000
Loss before tax		(26,911)	(48,642)
Adjustments for:			
– Depreciation and amortisation	8	22,300	20,383
– Finance costs	10	5,316	2,497
– Interest income	10	(14,169)	(12,119)
– Share-based payment expenses	9	4,245	3,531
– Share of profit of associates	18	(2,164)	(472)
– Net (reversal of)/impairment loss on trade receivables	4.1(b)	(34,768)	27,931
– Reversal of provision for impairment of other receivables	21	–	(3,693)
– Provision for impairment of inventories	19	27,441	3,992
– Loss on disposal of property, plant and equipment	7	478	–
– Write-off of property, plant and equipment	13	489	1,102
– Provision for impairment of property, plant and equipment	13	5,870	–
– Fair value gain on revaluation of investment property	7	–	(760)
– Gain on disposal of subsidiaries	7	–	(303)
– Gain on early termination of leases	7	(36)	–
		(11,909)	(6,553)
Changes in working capital:			
– Inventories		(9,325)	(76,286)
– Trade and other receivables and contract assets		53,757	128,065
– Finance lease receivables		–	(2,424)
– Restricted bank deposits pledged for bills payables		19,460	30,044
– Trade and other payables and contract liabilities		(22,915)	(2,730)
– Amount due from an associate		79	–
Cash generated from operations		29,147	70,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Note to consolidated statement of cash flows (Continued)

(b) Liabilities arising from financing activities

	Lease liabilities RMB'000	Borrowings RMB'000
As at 1 January 2018	–	60,150
Proceeds from new borrowings	–	43,620
Repayments of borrowings	–	(45,509)
Foreign exchange adjustments	–	1,841
As at 31 December 2018	–	60,102
Initial adoption of HKFRS 16 (Note 14)	2,271	–
As at 1 January 2019, restated	2,271	60,102
Proceeds from new borrowings	–	72,498
Repayments of borrowings	–	(55,991)
Addition of leases	463	–
Repayment of principal portion of lease liabilities	(1,669)	–
Early termination of lease (Note 13)	(316)	–
Foreign exchange adjustments	–	942
As at 31 December 2019	749	77,551

(c) Significant non-cash transactions

During the year ended 31 December 2018, the investment property of the Group was transferred to property, plant and equipment as a result of change of usage to own use. As of the date of transfer, the fair value of the property was RMB13,001,000.

During the year ended 31 December 2018, Shanghai Topp ceased to be a subsidiary of the Group and became an associate which is accounted for using the equity method. As at the date of application of equity accounting, the fair value of the investment in an associate was RMB51,500,000 (Note 18). As at 31 December 2018, the consideration due from the acquirer of RMB1,373,000 was not yet settled and was included in "prepayments, deposits and other receivables".

During the year ended 31 December 2019, the non-cash transaction was related to the acquisition of right-of-use assets and there were no other significant non-cash transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Note to consolidated statement of cash flows (Continued)

(d) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	2019 RMB'000	2018 RMB'000
Net book amount	19,047	–
Net loss on disposal of property, plant and equipment	(478)	–
Total consideration from disposal of property, plant and equipment	18,569	–
Consideration not yet received	(10,934)	–
Proceeds from disposal of property, plant and equipment received for the year	7,635	–

(e) Reconciliation of consideration in respect of disposal of subsidiaries

	2019 RMB'000	2018 RMB'000
Consideration receivable:		
Cash consideration	–	1,373
Withholding tax	–	(144)
Fair value of investment in an associate as at the date of disposal	–	51,500
Carrying amounts of net assets disposed as at the date of disposal	–	(52,426)
Gain on disposal of subsidiaries (Note 7)	–	303

	2019 RMB'000	2018 RMB'000
Cash consideration	–	1,373
Less: Cash and cash equivalents included in the subsidiaries	–	(2,249)
Cash consideration not yet received	–	(1,373)
Net outflow of cash and cash equivalents included in cash flows from investing activities	–	(2,249)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Commitments

- (a) Capital commitments as at 31 December 2019 not provided for in the consolidated financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Investment in an associate		
Contracted for	3,000	–
Property, plant and equipment:		
Contracted for	2,320	3,030
Authorised but not contracted for	–	–
	5,320	3,030

(b) **Operating lease commitments – as lessee**

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were as follows:

	2018 RMB'000
Within 1 year	1,970
After 1 year but within 5 years	711
	2,681

At 31 December 2019, the total future minimum lease payments under non-cancellable operating leases not recognised in the consolidated financial statements were as follows:

	2019 RMB'000
Within 1 year	15

(c) **Operating lease commitments – as lessor**

At 31 December 2019 and 2018, the total future minimum lease receivables in respect of the Group's plants under non-cancellable operating leases were as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	10,938	14,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 Financial guarantee

Certain customers of Langfang D&G, a principal operating subsidiary of the Group, 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).

33 Related party transactions

The Group is controlled by Prima DG Investment Holding Company Limited (incorporated in the British Virgin Islands), which owns approximately 56% of the Company's shares. The remaining approximately 44% of the Company's shares are widely held. The ultimate controlling party of the Group is Choi Family (Mr. Choi Hung Nang, Ms. Tin Suen Chu, Mr. Choi Hon Ting, Derek and Ms. Choi Kwan Li, Glendy).

(a) Transactions with related parties

During the year, save as disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties in the ordinary course of business:

	2019 RMB'000	2018 RMB'000
Interest income from an associate – Sichuan RTDL (Note b(i))	380	–
Finance lease income from a related party: – Entity jointly controlled by Choi Family and an independent third party	–	48
	380	48

The above transactions were entered at terms mutually agreed with the related parties in the ordinary course of the Group's business.

In addition, the Group disposed of certain leased machineries to an associate of the Group at a consideration of RMB11,208,000, a gain on disposal of RMB380,000 was recognised and included in "other income and other (losses)/ gains, net" for the year ended 31 December 2019 (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Related party transactions (Continued)

(b) Year end balances

	Note	2019 RMB'000	2018 RMB'000
Amount due from an associate – Sichuan RTDL	(i)	9,728	–
Included in other receivables: Amount due from an associate, Shanghai Topp	(ii)	1,712	1,108
Included in other payables: Amount due to a related party – Entity controlled by Choi Family	(ii)	350	338

Note:

- (i) As at 31 December 2019, the amount due from an associate represented receivables in respect of disposal of machineries to an associate and the accumulated interest. The balance was interest bearing at 4.5% per annum, and was unsecured. The balance shall be settled by monthly instalments before March 2022.
- (ii) As at 31 December 2019 and 2018, the amounts due from/(to) an associate and a related party were unsecured, interest free and repayable on demand.

(c) Key management compensation

The details of remuneration for key management personnel of the Group are set out in Note 35 and Note 9(b) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 Statement of financial position and reserve movement of the Company

	Note	2019 RMB'000	2018 RMB'000
Non-current asset			
Investment in a subsidiary		-	-
Amounts due from subsidiaries		448,014	443,935
Total non-current asset		448,014	443,935
Current assets			
Other receivables		283	291
Cash and cash equivalents		541	295
Total current assets		824	586
Total assets		448,838	444,521
Equity			
Share capital		4,912	4,897
Reserves	(a)	442,620	438,554
		447,532	443,451
Current liabilities			
Other payables		1,306	1,070
Total liabilities		1,306	1,070
Total equity and liabilities		448,838	444,521

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2020 and signed on its behalf.

Choi Hung Nang
Director

Choi Kwan Li, Glendy
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 Statement of financial position and reserve movement of the Company (Continued)

(a) Reserve movements of the Company

	Share premium RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2018	419,617	7,888	5,873	27,970	(40,459)	420,889
Total comprehensive income for the year	–	–	–	22,949	(8,815)	14,134
Employee share option scheme – grant of share options	–	–	3,531	–	–	3,531
Balance at 31 December 2018 and 1 January 2019	419,617	7,888	9,404	50,919	(49,274)	438,554
Total comprehensive loss for the year	–	–	–	6,488	(7,949)	(1,461)
Employee share option scheme – grant of share options	–	–	4,245	–	–	4,245
Employee share option scheme – lapse of share options	–	–	(436)	–	436	–
Employee share option scheme – exercise of share options	1,282	–	–	–	–	1,282
Balance at 31 December 2019	420,899	7,888	13,213	57,407	(56,787)	442,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

The remuneration of each director and the chief executive officer is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking for the year ended 31 December 2019				
	Director's fees RMB'000	Salaries, allowances and benefits in kind (including share-based compensation) RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Choi Hung Nang (<i>Chairman</i>)	166	2,702	-	-	2,868
Mr. Choi Hon Ting, Derek	166	1,608	-	24	1,798
Ms. Choi Kwan Li, Glendy (<i>Chief Executive Officer</i>)	166	2,216	-	24	2,406
Mr. Liu Tom Jing-zhi	166	1,354	-	24	1,544
Mr. Lao Kam Chi	166	1,460	-	24	1,650
Non-executive directors					
Mr. Chan Lewis	166	59	-	-	225
Mr. Alain Vincent Fontaine	166	59	-	-	225
Independent non-executive directors					
Mr. Law Wang Chak, Waltery (<i>resigned on 1 May 2019</i>)	54	-	-	-	54
Mr. Li Zongjin	166	59	-	-	225
Mr. Lee Wai Yat, Paco	166	59	-	-	225
Mr. Fok Wai Shun, Wilson	166	78	-	-	244
Mr. O' Yang Wiley (<i>appointed on 1 May 2019</i>)	113	-	-	-	113
	1,827	9,654	-	96	11,577

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (Continued)

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking for the year ended 31 December 2018					Total RMB'000
	Director's fees RMB'000	Salaries, allowances and benefits in kind (including share-based compensation) RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000		
Executive directors						
Mr. Choi Hung Nang (<i>Chairman</i>)	152	2,353	–	–		2,505
Mr. Choi Hon Ting, Derek	152	1,424	–	23		1,599
Ms. Choi Kwan Li, Glendy (<i>Chief Executive Officer</i>)	152	1,888	–	23		2,063
Mr. Liu Tom Jing-zhi	152	1,076	–	23		1,251
Mr. Lao Kam Chi	152	1,193	–	23		1,368
Non-executive directors						
Mr. Chan Lewis	152	25	–	–		177
Mr. Alain Vincent Fontaine	152	38	–	–		190
Independent non-executive directors						
Mr. Law Wang Chak, Waltery	152	62	–	–		214
Mr. Li Zongjin	152	47	–	–		199
Mr. Lee Wai Yat, Paco	152	47	–	–		199
Mr. Fok Wai Shun, Wilson	152	62	–	–		214
	1,672	8,215	–	92		9,979

There were no amounts paid during the year to the directors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join (2018: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

No emoluments were paid or receivable in respect of directors' other services in connection with the management of affairs of the Company or its subsidiary undertakings for the year ended 31 December 2019 (2018: Nil).

There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate or connected entities (2018: Nil).

There are no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Event after the balance sheet date

- (a) 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 resumes 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.
- (b) On 7 March 2020, the Group entered into the supplemental agreement with Sichuan Xin De Yuan, an independent third party, pursuant to which the parties agreed to increase the registered share capital of Sichuan RTDL from RMB10,000,000 to RMB12,000,000 and the Group will contribute RMB6,000,000 of total registered share capital. As at 31 December 2019, the Group has injected capital of RMB1,000,000 and remaining capital will be injected before August 2022.