德基科技
D&G TECHNOLOGY

D&G TECHNOLOGY HOLDING COMPANY LIMITED

<INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY>

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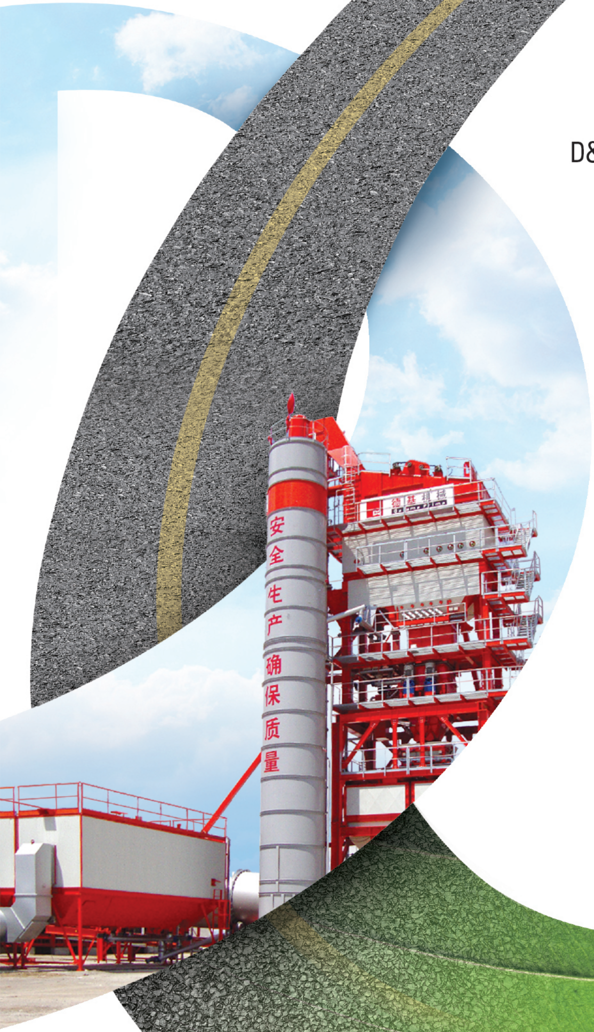

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INTERIM REPORT

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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. O'Yang Wiley
Mr. Li Zongjin
Mr. Lee Wai Yat, Paco
Mr. Fok Wai Shun, Wilson

AUDIT COMMITTEE

Mr. O'Yang Wiley *(Chairman)*
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. O'Yang Wiley

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. O'Yang Wiley
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

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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

BUSINESS REVIEW

General Review

In the first half of 2020, D&G Technology Holding Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") continued to be a leading market player in the road construction and maintenance machinery industry, focusing on medium to large-scale asphalt mixing plants. The Group provided one-stop customised solutions to customers in the People's Republic of China ("**PRC**", "**China**" or "**Mainland China**") and overseas markets, specialising in the research and development, design, manufacturing and sale of conventional and recycling asphalt mixing plants.

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 six months ended 30 June 2020, the Group continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were thirteen (2019: twenty-four) sales contracts of asphalt mixing plants completed by the Group during the period and the asphalt mixing plants were used in major highway construction and maintenance projects such as Xichang Ring Expressway (西昌繞城高速), Guangan Ring Expressway (廣安繞城高速), Xinjiang G575 Hami-Barkun Expressway Project (新疆G575哈密至巴里坤高速工程), etc. Revenue from sales of asphalt mixing plants decreased by approximately 39.1% during the period, whereas, the sales of asphalt mixing plants accounted for approximately 86.9% (2019: 88.3%) of the total revenue of the Group. Such decrease was mainly attributable to the impact from the outbreak of Coronavirus Disease 2019 ("**COVID-19**") in early 2020. Not only did the Group experience difficulties in arranging the logistics for goods delivery to some of our customers in certain provinces in China in early 2020, but certain job sites of our customers also suspended operations and deferred the commissioning of our asphalt mixing plants. Although transportation restrictions in China have been gradually lifted in the second quarter of 2020, there were still some delays in customers' acknowledgements of implementation of our asphalt mixing plants, resulting in the Group not being able to recognise the revenue of certain contracts in the first half of 2020. The Group's gross profit decreased to RMB14,227,000 (2019: RMB37,733,000) which was primarily due to the decrease in sales of asphalt mixing plants and the increase in impairment of inventories amounted to RMB15,586,000 (2019: RMB6,597,000) as a result of slow moving raw materials and work in progress; which was partially offset by the decrease in gross loss of operating lease business to RMB6,951,000 (2019: RMB12,704,000).

The increase in impairment of inventories during the period was mainly due to the slow moving of raw materials and work in progress as a result of COVID-19. The Group has also specifically reviewed and impaired certain work in progress which were pre-produced without confirmed sales order during the period. The Group has developed procedures to closely monitor the inventories level and expected it could be improved gradually.

On the other hand, the Group has 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. Due to the outbreak of COVID-19, operating lease business in China and Pakistan also slowed down and there was 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 loss making position. In order to scale down the operating lease business, the Group has disposed six sets of asphalt mixing plants during the period and diminished the gross loss of operating lease business.

Management has been cautiously monitoring the collection of trade receivables in order to improve the cash cycle. During the period, management continued to put extra effort in receivable collection and tighten 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. The overall settlement from customers have also been improved. The Group therefore made a reversal of provision for impairment loss of trade receivables of approximately RMB10.9 million during the period. 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 has been expanding its business and entering into potential markets along the "Belt and Road" countries. Out of the thirteen sales contracts of asphalt mixing plants completed during the period, four were completed in overseas countries including Russia, India and Bahrain. Although the overseas road construction projects along the "Belt and Road" countries slowed down during the period, the Group has entered into three sales contracts with two customers in Russia which were expected to be completed in the second half of the year. To further penetrate the markets in the developing countries, the Group has also developed a compact mobile asphalt plants series in the product line. The outbreak of COVID-19 casted uncertainties in the overseas market, however, with the established overseas network the Group expects the road construction projects along the "Belt and Road" countries would resume once the COVID-19 is under control.

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.

Sichuan Rui Tong De Long New Materials Technology Limited ("**Sichuan RTDL**")*

On 7 March 2020, Langfang De Feng New Materials Technology Limited* ("**Langfang De Feng**") entered into a supplemental shareholders' agreement with with Sichuan Xin De Yuan Trading Limited* ("**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.

After the resolution of shareholders' meeting on 7 March 2020, the Group was able to appoint two directors of Sichuan RTDL, and obtained 50% voting right in Sichuan RTDL through board representation. Therefore, the Group has recorded its investment in Sichuan RTDL as an investment in a joint venture since 7 March 2020. 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 mixing plant station with local government in Sichuan. However, the progress of development of asphalt mixing plant station remained slow during the period.

* *For identification purpose only*

Development of combustion technology

During the period, 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 30 June 2020, thirty-six (31 December 2019: thirty-one) patents of combustion technology were registered, three patents were pending registration.

*Investment in a convertible bond (the "**Convertible Bond**")*

On 10 August 2020, the Group's wholly owned subsidiary, Langfang D&G Machinery Technology Company Limited (the "**Langfang D&G**") (as the lender), has entered into a Convertible Bond Agreement (the "**Convertible Bond Agreement**") with Zhejiang Zhengfang Asphalt Concrete Technology Limited* (the "**Project Company**") (as the borrower), a wholly owned subsidiary of Zhejiang Zhengfang Holding Limited* ("**Zhejiang Holding**"). The Project Company was established on 3 September 2019 with registered capital of RMB10 million. The principal activities of the Project Company are development of asphalt mixing plants station and sales of asphalt mixtures. Zhejiang Holding, as a guarantor in the Convertible Bond Agreement, is a road construction company in Zhejiang, China which is an existing customer of Langfang D&G.

The Convertible Bond is in a total amount of RMB20 million. Prior to the drawdown, the Project Company has to increase its registered and paid-up capital to RMB50 million on or before 30 September 2020. The first tranche of RMB10 million will be drawdown on or before 31 October 2020 and the second tranche of RMB10 million will be drawdown on or before 31 December 2020. The Convertible Bond is interest bearing at 6% per annum with a loan period commencing from the drawdown date to 30 April 2024.

Pursuant to the Convertible Bond Agreement, during the tenure of the Convertible Bond, the Project Company shall purchase no less than five sets of asphalt mixing plants from Langfang D&G. The Project Company has to provide its audited accounts for the year end 31 December 2023 (together with its comparative figures for the year ended 31 December 2022) to Langfang D&G on or before 31 March 2024. Langfang D&G has the right to exercise its equity conversion option within 30 days upon receipt of audited accounts of the Project Company or otherwise the Project Company has to fully repay the Convertible Bond together with the interest on 30 April 2024.

* *For identification purpose only*

The enterprise value of the Project Company for the calculation of equity percentage upon conversion shall be based on the higher of (i) 1.5 times of the net assets of the Project Company as at 31 December 2023 calculated with reference to its audited accounts prepared in accordance with the PRC general accepted accounting principles (the "**PRC GAAP**"), or (ii) 6 times of the weighted average of its net profits for the years ended 31 December 2022 and 2023 calculated with reference to its audited accounts prepared in accordance with the PRC GAAP.

Both the Project Company and Zhejiang Holding engaged in the road construction industry, whereas the Group is the major manufacturer of asphalt mixing plants which is the key equipment to produce asphalt mixtures, an indispensable material in asphalt paved roads. The Group's investment in the Project Company will not only strengthen the cash position of the Project Company and speed up the development of the asphalt mixing plants station in Zhejiang, but also increase the demand of asphalt mixing plants and hence the sales of asphalt mixing plants of the Group. The Group expects the investment in the Convertible Bond is a first step to collaborate with Zhejiang Holding and will further explore opportunities to develop asphalt mixing plants station in China.

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 30 June 2020, the Group had one hundred and twenty one registered patents in the PRC (of which four were invention patents) and twenty-six software copyrights. In addition, twenty-one patents were pending registration as at 30 June 2020.

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 period, the Group participated in various corporate social responsibility events such as the Green Carnival 2020, the Earth Hour 2020 and the World Environment Day 2020.

In June 2020, the Group was awarded the "Caring Company" which was organised by the Hong Kong Council of Social Service.

In July 2020, the Group was awarded as an "EcoChallenger" and "5 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.

Outlook

In view of the ongoing US-China trade war and COVID-19, 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 issues during the asphalt mixture production among the road construction and maintenance companies and the PRC government's emphasis on reducing pollution from industrial sector, the demand for our recycling and environmentally-friendly products continue 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 is a way of building up strategic partnerships with countries along the "Belt and Road" region for the PRC government. However, the "Belt and Road" activities have slowed down due to the US-China trade war and COVID-19. It is expected the US-China trade war shall continue but the Group is prepared to grasp the business opportunities arisen from "Belt and Road" construction projects once the tension between United States of America (the "**US**") and China has been lessen.

Since the technologies of the Group's asphalt mixing plants are widely adopted in countries except 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 period. 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.

During the period, the Group's performance was adversely affected by COVID-19, however, the Group expects that the local demand for asphalt mixing plants in the second half of 2020 shall gradually increase as the PRC government would inject more funds into domestic infrastructure projects to stimulate the local economies. 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 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 conditions.

FINANCIAL REVIEW

During the six months ended 30 June 2020, the Group recorded a total revenue of RMB128,331,000 (2019: RMB207,102,000), representing a decrease of approximately 38.0% as compared to the last corresponding period. Gross profit decreased from RMB37,733,000 for the six months ended 30 June 2019 to RMB14,227,000 for the six months ended 30 June 2020, representing a decrease of approximately 62.3%. Gross profit margin decreased by 7.1 percentage points from 18.2% to 11.1%. The Group recorded a net loss attributable to owners of the Company of RMB27,009,000 compared with a net loss of RMB24,028,000 in the last corresponding period.

	Six months ended 30 June		
	2020 ***RMB'000***	2019 *RMB'000*	Change
Sales of asphalt mixing plants	**111,476**	182,954	-39.1%
Sales of spare parts and modified equipment	**15,795**	17,952	-12.0%
Operating lease income of asphalt mixing plants	**1,060**	6,196	-82.9%
	128,331	207,102	-38.0%

Sales of Asphalt Mixing Plants

	Six months ended 30 June		
	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue	**111,476**	182,954	-39.1%
Gross profit (Note)	**30,111**	49,901	-39.7%
Gross profit margin	**27.0%**	27.3%	-0.3pp
Number of contracts	**13**	24	-11
Average contract value	**8,575**	7,623	12.5%

Revenue from the sales of asphalt mixing plants decreased as a result of the decrease in number of contracts and the decrease was partially offset by the increase in the average contract value. The decrease in number of contracts was mainly due to the impact of COVID-19 that increased difficulties in arranging the logistics for goods delivery to some of our customers in certain provinces in China in early 2020, certain job sites of our customers also suspended operations and deferred the commissioning of our asphalt mixing plants. The increase in the average contract value was primarily due to the proportional increase in demand for Conventional Plants with high capacity. The gross profit margin remained stable at around 27%.

Note: Impairment of inventories of RMB15,586,000 was made for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB6,597,000) and charged to the "Cost of sales". The gross profit of the sales of asphalt mixing plants presented above and in this section has excluded the provision for impairment of inventories for analysis purpose.

By Types of Plants

	Six months ended 30 June		
	2020	2019	Change
	RMB'000	*RMB'000*	
Recycling Plant			
Revenue	**38,961**	77,860	-50.0%
Gross profit	**11,380**	26,698	-57.4%
Gross profit margin	**29.2%**	34.3%	-5.1pp
Number of contracts	**4**	7	-3
Average contract value	**9,740**	11,123	-12.4%
Conventional Plant			
Revenue	**72,515**	105,094	-31.0%
Gross profit	**18,731**	23,203	-19.3%
Gross profit margin	**25.8%**	22.1%	3.7pp
Number of contracts	**9**	17	-8
Average contract value	**8,057**	6,182	30.3%

Revenue from the sales of Recycling Plants decreased by 50.0% which was mainly due to the decrease in the number of contracts completed and the decrease in the average contract value during the period. The decrease in gross profit margin was mainly due to the decrease in the number of Recycling Plants with higher capacity (usually with higher gross profit margin) sold during the period. For the same reason, the average contract value decreased as compared to the last corresponding period.

Revenue from the sales of Conventional Plants decreased by 31.0% primarily because of the decrease in the number of contracts and offset by the increase in the average contract value during the period. The increase in the average contract value was mainly attributable to relatively more asphalt mixing plants sold with higher capacity during the period.

By Geographical Location

	Six months ended 30 June		
	2020	2019	Change
	RMB'000	*RMB'000*	
PRC			
Revenue	**81,180**	159,619	-49.1%
Gross profit	**23,027**	44,125	-47.8%
Gross profit margin	**28.4%**	27.6%	0.8pp
Number of contracts	**9**	20	-11
Average contract value	**9,020**	7,981	13.0%
Overseas			
Revenue	**30,296**	23,335	29.8%
Gross profit	**7,084**	5,776	22.6%
Gross profit margin	**23.4%**	24.8%	-1.4 pp
Number of contracts	**4**	4	–
Average contract value	**7,574**	5,834	29.8%

Revenue from the PRC sales decreased primarily because of the decrease in the number of contracts completed and the decrease was partially offset by the increase in the average contract value. The gross profit margin remained stable at around 28%. The increase in average contract value during the period was mainly due to the proportional increase in the number of asphalt mixing plants with higher capacity (i.e. 4000 model series or above which have higher gross profit margin than lower capacity series) sold during the period.

Revenue from the overseas sales increased mainly because of the increase in the average contract value. The gross profit margin slightly decreased by 1.4 percentage points to 23.4% was mainly due to all asphalt mixing plants sold during the period were 3000 model series or below which have lower gross profit margin. The increase in the average contract value was mainly due to one of the sales in India with relatively low contract price in the last corresponding period.

Sales of Spare Parts and Components and Modified Equipment

	Six months ended 30 June		
	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue	**15,795**	17,952	-12.0%
Gross profit	**6,653**	7,133	-6.7%
Gross profit margin	**42.1%**	39.7%	2.4pp

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.

During the period, the revenue from sales of spare parts and components amounted to RMB10,629,000 (2019: RMB11,452,000) and the revenue from sales of modified equipment amounted to RMB5,166,000 (2019: RMB6,500,000). The gross profit margin increased by 2.4 percentage points during the period was mainly resulted from the improvement in gross profit margin of sales of modified equipment to 36.7% (2019: 31.3%).

Operating Lease Income of Asphalt Mixing Plants

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

Revenue from operating lease of asphalt mixing plants amounted to RMB1,060,000 during the period (2019: RMB6,196,000). The decrease in revenue by 82.9% primarily because the total volume of productions decreased as compared to the last corresponding period. The decrease in production output by customers during the period was due to certain asphalt mixing plants and components were disposed. During the period, the Group recorded a gross loss (including impairment losses of property, plant and equipment) for its operating lease business of approximately RMB6,951,000 (2019: RMB12,704,000). The gross loss was mainly because of the decrease in customers' production of asphalt mixtures and hence the revenue could not cover the fixed overheads, including but not limited to staff costs and depreciation, charged during the period. In addition, in view of the continuing loss of the operating lease business, the Group has made an impairment loss of property, plant and equipment amounting to RMB3,677,000 (2019: RMB5,870,000) in respect of the fixed assets in Pakistan during the period. Since 2019, the Group has continued to dispose certain asphalt mixing plants or related components and diminished the gross loss of operating lease business during the period. A gain on disposal of six sets of asphalt mixing plants amounted to RMB6,328,000 (2019: loss on disposal of RMB454,000) was recorded in "Other income and other gains/(losses), net". Management will continue to reduce the number of asphalt mixing plants for operating lease business to an optimum scale this year and to improve the operating lease project quality by strengthening the control of contract review and implementation. As at 30 June 2020, six asphalt mixing plants (31 December 2019: twelve) were held for operating lease business.

Other Income and Other Gains/(Losses), Net

During the period, other income and other gains/(losses), net mainly represented net exchange loss arising from trading transactions and translation of pledged bank deposits and gain on disposal of property, plant and equipment. The increase was mainly due to the increase in gain on disposal of asphalt mixing plants in operating lease business as discussed above.

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. Decrease in distribution costs was mainly due to the decrease in sales of asphalt mixing plants through distributors during the period.

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses and legal and professional fees. During the period, administrative expenses decreased by approximately RMB8.0 million mainly due to the decrease in research and development expenses by RMB2.1 million and the decrease in share-based payment expenses by RMB1.6 million in relation to the share options granted in June 2018.

Net Reversal of Impairment Losses on Trade Receivables

The amount represented the net reversal of impairment losses on trade receivables of RMB10.9 million (2019: RMB11.1 million). The reversal of provision for impairment loss was mainly due to the settlement of long overdue trade receivables during the period. Management is expected to continue to receive settlement from long overdue trade receivables and have reversal on the provision for impairment losses.

Share of Profits of Associates

The amount mainly represented the share of the profit of Topp Financial Leasing (Shanghai) Co., Ltd.* ("**Shanghai Topp**") of RMB1,507,000.

Share of Loss of a Joint Venture

The amount represented the share of the loss of Sichuan RTDL of RMB190,000. For details, please refer to Section "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 increase in net finance income during the period was mainly due to the decrease in interest expenses as decrease in borrowings.

Income Tax (Expense)/Credit

The income tax expense for the six months ended 30 June 2020 was mainly attributable to the deferred tax expense arisen from the reversal of impairment losses on trade receivables of a subsidiary of the Company which is a "high and new technology enterprise" entitled to a preferential tax rate of 15%.

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company amounted to approximately RMB27.0 million for the six months ended 30 June 2020 compared with approximately RMB24.0 million for the six months ended 30 June 2019. The increase in loss for the period was mainly due to the decrease in revenue and gross profit, partially offset by the decrease in distribution costs and administrative expenses as discussed above.

Working Capital Management

Net current assets of the Group amounted to RMB436,822,000 (31 December 2019: RMB423,207,000) with a current ratio of 2.8 times (31 December 2019: 2.6 times) as at 30 June 2020.

* *For identification purpose only*

Inventories increased by RMB24,627,000 from RMB271,381,000 as at 31 December 2019 to RMB296,008,000 as at 30 June 2020. Inventory turnover days was 453 days for the six months ended 30 June 2020, representing an increase of 168 days as compared to 285 days for the year ended 31 December 2019. The increase in inventories and inventory turnover days was mainly due to the increase in raw materials and work in progress for pre-production that for certain construction projects which have been delayed due to the impact of COVID-19 in the first half of 2020.

Trade and bills receivables decreased by RMB39,517,000 from RMB226,885,000 as at 31 December 2019 to RMB187,368,000 as at 30 June 2020. Trade and bills receivables turnover days was 294 days for the six months ended 30 June 2020, representing an increase of 106 days as compared to 188 days for the year ended 31 December 2019. The increase in trade and bills receivables turnover days during the period was primarily due to (1) the decrease in PRC contracts with finance lease as payment method; and (2) decrease in number of sales contracts completed. 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 RMB8,640,000 from RMB104,295,000 as at 31 December 2019 to RMB95,655,000 as at 30 June 2020. Trade and bills payables turnover days was 159 days for the six months ended 30 June 2020, representing an increase of 30 days as compared to 129 days for the year ended 31 December 2019. The increase in trade and bills payables and turnover days was mainly because of extended payments to suppliers and sub-contractors.

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 30 June 2020, the Group had cash and cash equivalents of RMB97,128,000 (31 December 2019: RMB94,912,000) and pledged bank deposits of RMB46,730,000 (31 December 2019: RMB47,413,000). In addition, the Group had interest-bearing bank borrowings of RMB58,224,000 (31 December 2019: RMB72,258,000). 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 9.5% (31 December 2019: 11.6%).

During the six months ended 30 June 2020, the Group recorded cash used in operating activities of RMB6,131,000 (six months ended 30 June 2019: RMB35,062,000). Net cash generated from investing activities amounted to RMB25,765,000 (six months ended 30 June 2019: cash used in investing activities RMB8,398,000) for the six months ended 30 June 2020. Net cash used in financing activities for the six months ended 30 June 2020 amounted to RMB20,697,000 (six months ended 30 June 2019: cash generated from financing activities RMB47,639,000).

Capital Commitments and Contingent Liabilities

The Group's capital commitments for investment in an associate and a joint venture and purchase of property, plant and equipment at the end of the period are as follows:

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Investment in an associate		
Contracted for	**–**	3,000
Investment in a joint venture		
Contracted for	**4,500**	–
Property, plant and equipment		
Contracted for	**1,317**	2,320

As at 30 June 2020, there is no capital commitments authorised but not contracted for (31 December 2019: Same).

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 30 June 2020, the Group's maximum exposure to such guarantees was approximately RMB84,721,000 (31 December 2019: RMB76,769,000).

Pledge of Assets

As at 30 June 2020, property, plant and equipment of RMB45,830,000 (31 December 2019: RMB45,647,000), land use right of RMB4,769,000 (31 December 2019: RMB4,835,000) and bank deposits of RMB46,730,000 (31 December 2019: RMB47,413,000) were pledged for loans and 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 market 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 six months ended 30 June 2020.

Significant Investments and Material Acquisitions or Disposals

During the six months ended 30 June 2020, the Group did not have any significant investments or material acquisitions or disposals.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, the interests or short positions of the directors of the Company (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 of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (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	35,032,000	5.63%
	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%

Name of Director	Long/ Short position	Type of interest	Number of Shares and underlying shares held	Approximate percentage of shareholding in the Company
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%

(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 interest
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:

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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.

Save as disclosed above, as at 30 June 2020, 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 30 June 2020, 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	35,032,000	5.63%
	Long	Beneficial owner[2]	8,000,000	1.29%
Ms. Tin Suen Chu[1]	Long	Interest of spouse	388,728,000	62.50%
	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:

1. 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.

2. 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.

3. 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.

Save as disclosed above, as at 30 June 2020, 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 of Directors (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 interim 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.

During the six months ended 30 June 2020, none of the above share options was exercised, cancelled or has lapsed and no option has been granted under the Share Option Scheme.

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 RMB8,391,300) respectively, of which the Group recognised a share option expenses of approximately RMB1,009,000 (2019: RMB2,614,000) during the six months ended 30 June 2020.

The fair value 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 option pricing model and taking into account the terms and conditions upon which the options were granted.

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

Particulars and movements of share options granted under the Share Option Scheme for the six months ended 30 June 2020 were as follows:

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2020	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2020
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

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2020	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2020
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
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

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2020	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2020
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	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
				34,600,000	–	–	–	34,600,000
Other employees in aggregate	20/4/2016	1/10/2016 – 19/4/2021	HK$0.88	200,000	–	–	–	200,000
	20/4/2016	1/10/2017 – 19/4/2021	HK$0.88	250,000	–	–	–	250,000
	20/4/2016	1/10/2018 – 19/4/2021	HK$0.88	300,000	–	–	–	300,000
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	2,200,000	–	–	–	2,200,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	2,200,000	–	–	–	2,200,000
				5,150,000	–	–	–	5,150,000
				39,750,000	–	–	–	39,750,000

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this interim report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the six months ended 30 June 2020.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group had approximately 402 employees (31 December 2019: 436). The total staff costs for the six months ended 30 June 2020 amounted to approximately RMB33,686,000 (six months ended 30 June 2019: RMB40,040,000).

The remuneration policy of the Group was based on performance of employees, market conditions, business demands and expansion plans. The Group offered different remuneration packages to the employees based on their positions, which included 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 Company has adopted a share option scheme of the Company pursuant to which employees may be granted options to subscribe for shares of the Company as incentives or rewards for their services rendered to the Group. No option has been granted during the six months ended 30 June 2020 and 2019.

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2020.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the six months ended 30 June 2020, the Company has, in the opinion of the Directors, complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the period.

REVIEW OF INTERIM RESULTS

The Company has an audit committee (the "**Audit Committee**") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control systems. The Audit Committee comprises four members, namely Mr. O'Yang Wiley (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson. All of them are independent non-executive Directors. The interim results of the Group for the six months ended 30 June 2020 have been reviewed by the Audit Committee.

The Company's auditor, PricewaterhouseCoopers, has also reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CHANGE OF DIRECTORS' INFORMATION

The emolument of the directors, which was determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group. As a part of cost control measures exercised by the Group during the epidemic of COVID-19, the director fee and salaries have been reduced by 20% for during the period from May to July 2020.

The director fee of each director has been decreased from HK$16,000 to HK$12,800 per month from May to July 2020.

The salary of Mr. Choi Hung Nang has been decreased from HK$120,000 to HK$96,000 per month from May to July 2020.

The salary of Ms. Choi Kwan Li, Glendy has been decreased from HK$120,000 to HK$96,000 per month from May to July 2020.

The salary of Mr. Choi Hon Ting, Derek has been decreased from HK$70,000 to HK$56,000 per month from May to July 2020.

The salary of Mr. Liu Tom Jing-zhi has been decreased from HK$80,000 to HK$64,000 per month from May to July 2020.

The salary of Mr. Lao Kam Chi has been decreased from HK$88,000 to HK$70,400 per month from May to July 2020.

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TO THE BOARD OF DIRECTORS OF D&G TECHNOLOGY HOLDING COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 34 to 60 which comprises the interim condensed consolidated statement of financial position of D&G Technology Holding Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at 30 June 2020 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 August 2020

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Revenue	6	**128,331**	207,102
Cost of sales		**(114,104)**	(169,369)
Gross profit		**14,227**	37,733
Other income and other gains/(losses), net	7	**4,035**	201
Distribution costs		**(28,884)**	(43,421)
Administrative expenses		**(30,214)**	(38,215)
Net reversal of impairment losses on trade receivables		**10,880**	11,138
Operating loss	8	**(29,956)**	(32,564)
Finance income, net		**5,145**	4,853
Share of profits of associates	12(a)	**1,507**	1,175
Share of loss of a joint venture	12(b)	**(190)**	–
Loss before income tax		**(23,494)**	(26,536)
Income tax (expense)/credit	9	**(3,515)**	2,508
Loss for the period attributable to owners of the Company		**(27,009)**	(24,028)
Loss per share attributable to owners of the Company during the period			
– basic *(RMB cents)*	10(a)	**(4.34)**	(3.87)
– diluted *(RMB cents)*	10(b)	**(4.34)**	(3.87)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Loss for the period	**(27,009)**	(24,028)
Other comprehensive income/(loss) for the period, net of tax		
Items that may be reclassified to profit or loss		
Currency translation differences	**2,952**	(1,498)
Total comprehensive loss attributable to owners of the Company for the period	**(24,057)**	(25,526)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	**Unaudited 30 June 2020** ***RMB'000***	Audited 31 December 2019 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	11	**134,296**	165,245
Intangible assets	11	**3,245**	3,809
Investments in associates	12(a)	**55,520**	54,883
Investment in a joint venture	12(b)	**1,180**	–
Amount due from an associate	20(b)	**–**	4,670
Amount due from a joint venture	20(b)	**1,638**	–
Deposits and prepayments		**–**	800
Deferred income tax assets		**15,124**	18,672
Total non-current assets		**211,003**	248,079
Current assets			
Inventories		**296,008**	271,381
Contract assets		**–**	1,514
Trade and bills receivables	13	**187,368**	226,885
Amount due from an associate	20(b)	**–**	5,058
Amount due from a joint venture	20(b)	**3,663**	–
Prepayments, deposits and other receivables		**52,830**	36,375
Pledged bank deposits		**46,730**	47,413
Cash and cash equivalents		**97,128**	94,912
Income tax recoverable		**321**	–
Total current assets		**684,048**	683,538
Total assets		**895,051**	931,617
EQUITY			
Share capital	16	**4,912**	4,912
Other reserves		**575,642**	571,681
Retained earnings		**63,285**	90,294
Total equity		**643,839**	666,887

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	**Unaudited 30 June 2020 *RMB'000***	Audited 31 December 2019 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	14	**–**	785
Lease liabilities		**486**	114
Deferred income tax liabilities		**3,500**	3,500
Total non-current liabilities		**3,986**	4,399
Current liabilities			
Borrowings	14	**61,306**	76,766
Trade and other payables	15	**136,279**	148,991
Contract liabilities	15	**48,338**	33,044
Lease liabilities		**803**	635
Amount due to a joint venture	20(b)	**500**	–
Income tax payable		**–**	895
Total current liabilities		**247,226**	260,331
Total liabilities		**251,212**	264,730
Total equity and liabilities		**895,051**	931,617

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited							
	Attributable to owners of the Company							
	Share capital *RMB'000* Note 16(a)	Share premium *RMB'000* Note 16(b)	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Exchange reserve *RMB'000*	Share options reserve *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
Unaudited:								
Balance at 1 January 2019	4,897	419,617	65,290	44,395	27,770	9,404	125,791	697,164
Changes in accounting policies	–	–	–	–	–	–	(201)	(201)
Balance at 1 January 2019, restated	4,897	419,617	65,290	44,395	27,770	9,404	125,590	696,963
Comprehensive loss								
– Loss for the period	–	–	–	–	–	–	(24,028)	(24,028)
Other comprehensive loss								
– Currency translation differences	–	–	–	–	(1,498)	–	–	(1,498)
Total comprehensive loss	–	–	–	–	(1,498)	–	(24,028)	(25,526)
Employee share option scheme								
– exercise of share options	13	1,170	–	–	–	–	–	1,183
– value of employee services	–	–	–	–	–	2,614	–	2,614
Balance at 30 June 2019	4,910	420,787	65,290	44,395	26,272	12,018	101,562	675,234
Unaudited:								
Balance at 1 January 2020	**4,912**	**420,899**	**65,290**	**45,051**	**27,228**	**13,213**	**90,294**	**666,887**
Comprehensive loss								
– Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(27,009)**	**(27,009)**
Other comprehensive income								
– Currency translation differences	**–**	**–**	**–**	**–**	**2,952**	**–**	**–**	**2,952**
Total comprehensive loss	**–**	**–**	**–**	**–**	**2,952**	**–**	**(27,009)**	**(24,057)**
Employee share option scheme								
– value of employee services	**–**	**–**	**–**	**–**	**–**	**1,009**	**–**	**1,009**
Balance at 30 June 2020	**4,912**	**420,899**	**65,290**	**45,051**	**30,180**	**14,222**	**63,285**	**643,839**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash used in operations	**(4,984)**	(35,038)
Income tax paid	**(1,147)**	(24)
Net cash used in operating activities	**(6,131)**	(35,062)
Cash flows from investing activities		
Payment for acquisition of property, plant and equipment	**(3,449)**	(12,579)
Proceeds from disposal of property, plant and equipment	**28,417**	4,405
Capital injection to an associate	**–**	(1,000)
Interest received	**797**	776
Net cash generated from/(used in) investing activities	**25,765**	(8,398)
Cash flows from financing activities		
Repayments of borrowings	**(56,317)**	(25,148)
Proceeds from borrowings	**38,703**	66,617
Principal elements of lease payments	**(680)**	(864)
Interest paid of lease liabilities	**(27)**	(43)
Interest expenses paid	**(1,836)**	(2,426)
(Additions)/releases of bank deposits pledged for bank borrowings	**(540)**	8,320
Proceeds from issue of ordinary shares by exercise of share options	**–**	1,183
Net cash (used in)/generated from financing activities	**(20,697)**	47,639
Net (decrease)/increase in cash and cash equivalents	**(1,063)**	4,179
Cash and cash equivalents at beginning of the period	**94,912**	64,407
Effect of foreign exchange rate changes	**3,279**	1,259
Cash and cash equivalents at end of the period	**97,128**	69,845

1 GENERAL INFORMATION

The Group is principally engaged in manufacturing, distribution, research and development and operating lease of asphalt mixing plants and sales of spare parts and modified equipment.

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's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 27 May 2015.

The condensed consolidated interim financial information is presented in thousands of Renminbi ("**RMB'000**"), unless otherwise stated.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting".

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**").

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2019, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2020:

- HKAS 1 and HKAS 8 (Amendments) Definition of Material,
- HKFRS 3 (Amendments) Definition of a Business,
- Revised Conceptual Framework for Financial Reporting 2018,
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform, and
- Amendment to HKFRS 16 COVID 19 Related Rent Concessions.

The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

3 ACCOUNTING POLICIES (CONTINUED)

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

The following new standards, amendments to existing standards and interpretations have been issued but are not yet effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:

Standards	Subject	Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16	Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Cost of Fulfilling a Contract	1 January 2022
Annual improvement project	Annual Improvements 2018-2020 Cycle	1 January 2022
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

4 ESTIMATES

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

There have been no changes in the risk management policies since 31 December 2019.

(b) Fair value estimation

The carrying amounts of the Group's financial assets and liabilities with a maturity of less than one year, including trade and bills receivables, prepayments, deposits and other receivables, cash and cash equivalents, pledged bank deposits, amount due from an associate, amount due from a joint venture, trade and other payables, lease liabilities, amount due to a joint venture and borrowings approximate their fair values.

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 Group has determined that it only has one major 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:

	Unaudited Six months ended 30 June	
	2020 ***RMB'000***	2019 *RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of asphalt mixing plants	**111,476**	182,954
Sales of spare parts and modified equipment	**15,795**	17,952
	127,271	200,906
Revenue from other sources		
Operating lease income of asphalt mixing plants	**1,060**	6,196
	128,331	207,102
Revenue from contracts with customers recognised at a point in time	**127,271**	200,906

6 SEGMENT INFORMATION (CONTINUED)

(a) Revenue by selling location

	Unaudited Six months ended 30 June 2020 *RMB'000*	2019 *RMB'000*
The PRC	**95,348**	179,409
Outside the PRC	**32,983**	27,693
	128,331	207,102

(b) Non-current assets

The geographical location of the non-current assets, excluding deferred income tax assets, is based on the physical location of the assets.

	Unaudited At 30 June 2020 *RMB'000*	Audited At 31 December 2019 *RMB'000*
The PRC	**144,914**	175,396
Outside the PRC	**50,965**	54,011
	195,879	229,407

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:

	Unaudited Six months ended 30 June	
	2020 ***RMB'000***	2019 *RMB'000*
Customer A	**14,211**	6,663

Except for Customer A, there were no other customers individually accounted for more than 10% of the Group's revenue for the six months ended 30 June 2020.

No customer with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2019. The amount for the six months ended 30 June 2019 shown above is for comparative purpose only.

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

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Other income		
Government grants (Note)	**827**	940
Others	**11**	61
	838	1,001
Other gains/(losses), net		
Net gain/(loss) on disposal of property, plant and equipment	**6,328**	(454)
Exchange loss, net	**(3,306)**	(806)
Others	**175**	460
	3,197	(800)
	4,035	201

Note:

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

8 OPERATING LOSS

Operating loss is stated after charging/(crediting) the following:

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Cost of inventories	**106,165**	135,949
Employee benefit expenses	**32,677**	37,426
Share-based payment expenses	**1,009**	2,614
Depreciation and amortisation (Note 11)		
– Property, plant and equipment under operating lease	**3,117**	5,682
– Other property, plant and equipment	**4,632**	5,089
– Intangible assets	**567**	424
Net reversal of impairment losses on trade receivables	**(10,880)**	(11,138)
Provision for impairment of inventories	**15,586**	6,597
Provision for impairment of property, plant and equipment (Note 11)	**3,677**	5,870

9 INCOME TAX (EXPENSE)/CREDIT

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**(52)**	–
– Over/(under)-provision in prior period	**85**	(146)
Deferred income tax	**(3,548)**	2,654
	(3,515)	2,508

No provision for Hong Kong profits tax was made for the current period (2019: Nil) as the Group had no assessable profits subject to Hong Kong profits tax for the period.

9 INCOME TAX (EXPENSE)/CREDIT (CONTINUED)

The Group's operations in the PRC are subject to PRC enterprise income tax at a statutory rate of 25% (2019: 25%).

According to the PRC enterprise income tax law and its relevant regulations, a wholly-owned subsidiary of the Company, Langfang D&G is qualified as a "high and new technology enterprise" under the tax law and entitled to a preferential income tax rate of 15% (2019: 15%).

Under the PRC enterprise income tax law and its relevant regulations, a 75% (2019: 75%) additional tax deduction is allowed for qualified research and development expenses.

10 LOSS PER SHARE

(a) Basic

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

The calculations of the basic loss per share are as follows:

	Unaudited Six months ended 30 June	
	2020	2019
Loss attributable to owners of the Company *(RMB'000)*	**(27,009)**	(24,028)
Weighted average number of ordinary shares in issue	**621,958,000**	621,027,000
Basic loss per share (expressed in RMB cents per share)	**(4.34)**	(3.87)

(b) Diluted

Diluted loss per share for the six months ended 30 June 2020 and 2019 is the same as the basic loss per share as potential ordinary shares arising from share options were not treated as dilutive as the conversion to ordinary shares would not increase the loss per share.

11 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment		
	Right-of-use assets	Other property, plant and equipment	Intangible assets
	RMB'000	*RMB'000*	*RMB'000*
Unaudited:			
Six months ended 30 June 2020			
Net book value			
At 1 January 2020	**5,528**	**159,717**	**3,809**
Additions	**1,249**	**3,449**	**–**
Disposals	**–**	**(25,215)**	**–**
Amortisation (Note 8)	**–**	**–**	**(567)**
Depreciation (Note 8)	**(735)**	**(7,014)**	**–**
Impairment (Note 8)	**–**	**(3,677)**	**–**
Exchange difference	**–**	**994**	**3**
At 30 June 2020	**6,042**	**128,254**	**3,245**
Unaudited:			
Six months ended 30 June 2019			
Net book value			
At 1 January 2019	7,035	189,497	2,911
Additions	167	12,579	–
Disposals	–	(18,087)	–
Amortisation (Note 8)	–	–	(424)
Depreciation (Note 8)	(832)	(9,939)	–
Impairment (Note 8)	–	(5,870)	–
Exchange difference	–	(59)	–
At 30 June 2019	6,370	168,121	2,487

12(a) INVESTMENTS IN ASSOCIATES

The movement of the investments in associates during the period is as follows:

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Balance at 1 January	**54,883**	51,972
Addition	**–**	1,000
Transfer to investment in a joint venture (Note)	**(870)**	–
Share of profits	**1,507**	1,175
Balance at 30 June	**55,520**	54,147

Note:

According to the shareholders' agreement on 7 March 2020, the Group committed to increase its investment in Sichuan RTDL to RMB6,000,000, representing the Group holds 50% issued capital of Sichuan RTDL. After the resolution of shareholders' meeting on 7 March 2020, the Group was able to appoint 2 directors of Sichuan RTDL, and obtained 50% voting right in Sichuan RTDL through board representation. Therefore, Sichuan RTDL is accounted for as a joint venture of the Group since 7 March 2020.

12(b) INVESTMENT IN A JOINT VENTURE

The movement of the investment in a joint venture during the period is as follows:

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Balance at 1 January	**–**	–
Transfer from investment in an associate	**870**	–
Addition	**500**	–
Share of loss	**(190)**	–
Balance at 30 June	**1,180**	–

13 TRADE AND BILLS RECEIVABLES

	Unaudited At 30 June 2020 *RMB'000*	Audited At 31 December 2019 *RMB'000*
Trade receivables from third parties	**231,944**	306,504
Less: discounting impact	**(13,046)**	(14,541)
Less: loss allowance	**(75,449)**	(86,329)
	143,449	205,634
Bills receivables	**43,919**	21,251
	187,368	226,885

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

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

	Unaudited At 30 June 2020 *RMB'000*	Audited At 31 December 2019 *RMB'000*
Within 1 year	**121,675**	166,803
1 to 2 years	**31,985**	63,643
2 to 3 years	**43,041**	41,163
Over 3 years	**35,243**	34,895
	231,944	306,504

13 TRADE AND BILLS RECEIVABLES (CONTINUED)

Certain trade receivables relating to customers with known financial difficulties or significant doubt on settlement of receivables are assessed individually for provision for impairment allowance. Expected credit losses are estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying the expected credit loss rates to the respective gross carrying amounts of the trade receivables.

14 BORROWINGS

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

	Secured bank loans		**Other borrowing** (Note)		**Total**	
	Unaudited At 30 June 2020 *RMB'000*	Audited At 31 December 2019 *RMB'000*	**Unaudited At 30 June 2020 *RMB'000***	Audited At 31 December 2019 *RMB'000*	**Unaudited At 30 June 2020 *RMB'000***	Audited At 31 December 2019 *RMB'000*
Within 1 year	**58,224**	72,258	**3,082**	4,508	**61,306**	76,766
Between 1 and 2 years	**–**	–	**–**	785	**–**	785
	58,224	72,258	**3,082**	5,293	**61,306**	77,551

As at 30 June 2020, the Group's bank loans were secured by the corporate guarantee provided by the Company, pledged bank deposits and property, plant and equipment (31 December 2019: same).

Note:

In February 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 collaterised other borrowing as the transfer of machinery from the Group to the buyer was not qualified as a sale under HKFRS 15.

14 BORROWINGS (CONTINUED)

Movements in borrowings are analysed as follows:

	RMB'000
Unaudited:	
Balance at 1 January 2020	**77,551**
Repayments of borrowings	**(56,317)**
Proceeds from borrowings	**38,703**
Exchange difference	**1,369**
Balance at 30 June 2020	**61,306**

	RMB'000
Unaudited:	
Balance at 1 January 2019	60,102
Repayments of borrowings	(25,148)
Proceeds from borrowings	66,617
Exchange difference	724
Balance at 30 June 2019	102,295

15 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	Unaudited At 30 June 2020 *RMB'000*	Audited At 31 December 2019 *RMB'000*
Trade payables	**54,583**	54,412
Bills payables	**41,072**	49,883
	95,655	104,295
Amount due to a related party	**344**	350
Other payables and accruals	**40,280**	44,346
	40,624	44,696
Total trade and other payables	**136,279**	148,991
Contract liabilities	**48,338**	33,044
	184,617	182,035

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

	Unaudited At 30 June 2020 *RMB'000*	Audited At 31 December 2019 *RMB'000*
Within 3 months	**60,587**	66,863
After 3 months but within 6 months	**28,282**	21,834
After 6 months but within 1 year	**5,113**	13,896
Over 1 year	**1,673**	1,702
	95,655	104,295

16 SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

Authorised:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares *HK$*
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	2,000,000,000	20,000,000

Issued and fully paid:

	Number of shares *('000)*	*HK$'000*	*RMB'000*
At 1 January 2020 and 30 June 2020	**621,958**	**6,220**	**4,912**
At 1 January 2019	620,238	6,203	4,897
Exercise of options under the share option scheme (Note)	1,570	15	13
At 30 June 2019	621,808	6,218	4,910

Note: Proceed from exercise of share options was amounting to RMB1,183,000 for the six months ended 30 June 2019.

(b) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

17 INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2020 (2019: Nil).

18 COMMITMENTS

Capital commitments

The Group's capital commitments for investment in an associate and a joint venture and purchase of property, plant and equipment at the end of period are as follows:

	Unaudited At 30 June 2020 ***RMB'000***	Audited At 31 December 2019 *RMB'000*
Investment in an associate		
Contracted for	**–**	3,000
Investment in a joint venture		
Contracted for	**4,500**	–
Property, plant and equipment		
Contracted for	**1,317**	2,320
	5,817	5,320

As at 30 June 2020, there is no capital commitments authorised but not contracted for (31 December 2019: Same).

19 CONTINGENT LIABILITIES

Financial guarantee issued

Certain customers of Langfang D&G, a principal operating subsidiary of the Group, financed their purchase of the Group's plants through finance leases provided by third-party leasing companies and Shanghai Topp. Under the leasing arrangement, Langfang D&G provides 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 right to demand Langfang D&G to repay the outstanding lease payments due from the customers for the repossession of the leased plants. As at 30 June 2020, the Group's maximum exposure to such guarantees was approximately RMB84,721,000 (31 December 2019: RMB76,769,000).

20 RELATED PARTY TRANSACTIONS AND BALANCES

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 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

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Interest income from an associate	**–**	139
Interest income from a joint venture	**182**	–
	182	139

In addition, the Group disposed of certain leased machinery 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 losses/gain, net" for the six months ended 30 June 2019.

20 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Year end balances

	Note	**Unaudited At 30 June 2020 *RMB'000***	Audited At 31 December 2019 *RMB'000*
Amount due from an associate – Sichuan RTDL	(i)	**–**	9,728
Amount due from a joint venture – Sichuan RTDL	(i)	**5,301**	–
Amount due to a joint venture – Sichuan RTDL	(ii)	**500**	–
Included in other receivables: Amount due from an associate, Shanghai Topp	(ii)	**1,732**	1,712
Included in other payables: Amount due to a related party – Entity controlled by Choi Family	(ii)	**344**	350

Notes:

(i) As at 30 June 2020 and 31 December 2019, due to the transfer from investment in an associate to investment in an joint venture for Sichuan RTDL on 7 March 2020, amount due from a joint venture and amount due from an associate represented receivables in respect of disposal of machineries to Sichuan RTDL and the accumulated interest. The balance was interest bearing at 4.5% per annum, and was unsecured. The balance shall be settled by monthly installments before March 2022.

(ii) As at 30 June 2020 and 31 December 2019, the amounts due from/(to) an associate, a joint venture and a related party were unsecured, interest free and repayable on demand.

21 SUBSEQUENT EVENTS

On 10 August 2020, the Group's wholly owned subsidiary, Langfang D&G (as the lender), has entered into a Convertible Bond Agreement with Project Company (as the borrower), a wholly owned subsidiary of Zhejiang Holding. Zhejiang Holding, as a guarantor in the Convertible Bond Agreement, is a road construction company in Zhejiang, China which is an existing customer of Langfang D&G.

The Convertible Bond is in a total amount of RMB20 million. Prior to the drawdown, the Project Company has to increase its registered and paid-up capital to RMB50 million on or before 30 September 2020. The first tranche of RMB10 million will be drawdown on or before 31 October 2020 and the second tranche of RMB10 million will be drawdown on or before 31 December 2020. The Convertible Bond is interest bearing at 6% per annum with a loan period commencing from the drawdown date to 30 April 2024.

During the tenure of the Convertible Bond, the Project Company shall purchase no less than five sets of asphalt mixing plants from Langfang D&G. Pursuant to the Convertible Bond Agreement, Langfang D&G has the right to exercise its equity conversion option, and the conversion ratio will be based on the higher of (i) 1.5 times of the net assets of the Project Company as at 31 December 2023 calculated with reference to its audited accounts prepared in accordance with the PRC GAAP, or (ii) 6 times of the weighted average of its net profits for the years ended 31 December 2022 and 2023 calculated with reference to its audited accounts prepared in accordance with the PRC GAAP.

With the outbreak of the COVID-19 since early 2020 and the floods in the Central and Southern China since early June 2020, the domestic and overseas logistic arrangements have been affected which led to delay in the delivery of the Group's products to certain of its customers and the efficiency of the supply chain. The Group will keep continuous monitoring of the situation of the COVID-19 and the floods and adjust its operational and financial strategies to minimise their impact on the financial position and performance of the Group.