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D&G TECHNOLOGY HOLDING COMPANY LIMITED
德基科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1301)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the "Board" or the "Directors") of D&G Technology Holding Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2020 together with the comparative figures for the previous year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RMB'000	2019 RMB'000
Revenue	*4*	**378,929**	446,426
Cost of sales		**(300,932)**	(358,697)
Gross profit		**77,997**	87,729
Other income and other gains/(losses), net	*5*	**7,846**	(359)
Distribution costs		**(73,486)**	(84,764)
Administrative expenses		**(59,570)**	(75,302)
Net reversal of impairment losses on financial assets		**25,945**	34,768

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RMB'000	2019 RMB'000
Operating loss		**(21,268)**	(37,928)
Finance income, net	*6(a)*	**10,022**	8,853
Share of profits of associates		**2,746**	2,164
Share of profit of a joint venture		**455**	–
Loss before income tax	*6*	**(8,045)**	(26,911)
Income tax expense	*7*	**(9,199)**	(8,165)
Loss attributable to owners of the Company for the year		**(17,244)**	(35,076)
Loss per share attributable to owners of the Company for the year	*9*		
– basic *(RMB cents)*		**(2.77)**	(5.64)
– diluted *(RMB cents)*		**(2.77)**	(5.64)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	RMB'000	*RMB'000*
Loss for the year	**(17,244)**	(35,076)
Other comprehensive loss:		
Item that may be reclassified to profit or loss:		
Currency translation differences	**(3,519)**	(542)
Other comprehensive loss for the year, net of tax	**(3,519)**	(542)
Total comprehensive loss attributable to owners of the Company for the year	**(20,763)**	(35,618)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**127,298**	165,245
Intangible assets		**2,680**	3,809
Investments in associates		**56,759**	54,883
Investment in a joint venture		**1,825**	–
Amount due from an associate		**–**	4,670
Amount due from a joint venture		**546**	–
Deposits		**–**	800
Deferred tax assets		**12,342**	18,672
Financial asset at fair value through profit or loss		**20,000**	–
Total non-current assets		**221,450**	248,079
Current assets			
Inventories	*10*	**231,004**	271,381
Contract assets		**–**	1,514
Trade and bills receivables	*11*	**189,634**	226,885
Amount due from an associate		**–**	5,058
Amount due from a joint venture		**4,416**	–
Prepayments, deposits and other receivables		**38,835**	36,375
Pledged bank deposits		**49,011**	47,413
Cash and cash equivalents		**188,778**	94,912
Total current assets		**701,678**	683,538
Total assets		**923,128**	931,617

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	2020 RMB'000	2019 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	**4,912**	4,912
Other reserves		**567,538**	571,681
Retained earnings		**74,766**	90,294
Total equity		**647,216**	666,887
LIABILITIES			
Non-current liabilities			
Borrowings	12	**–**	785
Lease liabilities		**2,257**	114
Deferred tax liabilities		**4,500**	3,500
Total non-current liabilities		**6,757**	4,399
Current liabilities			
Borrowings	12	**31,145**	76,766
Trade and other payables	13	**161,043**	148,991
Contract liabilities	13	**73,774**	33,044
Lease liabilities		**1,265**	635
Amount due to a joint venture		**500**	–
Income tax payable		**1,428**	895
Total current liabilities		**269,155**	260,331
Total liabilities		**275,912**	264,730
Total equity and liabilities		**923,128**	931,617

NOTES:

1 GENERAL INFORMATION

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

The Company and its subsidiaries (together, the "Group") are principally engaged in manufacturing, distribution, research and development and operating lease of asphalt mixing plants and sales of spare parts and modified equipment.

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

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

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, except for the financial asset at fair value through profit or loss.

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

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

The adoption of the following new standards, amendments to existing standards and interpretation are mandatory for the Group's financial year beginning on 1 January 2020.

Standards	**Subject**
HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Hedge Accounting
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Annual Improvements Project	Annual Improvements to HKFRS Standards 2018-2020 Cycle

The Group also elected to adopt the following amendment early:

HKFRS 16 (Amendments)	COVID-19-Related Rent Concessions

The amendments listed above did not have any impact on the amounts recognised in the current period and are not expected to significantly affect the future periods.

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

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

Standards	**Subject**	**Effective for the accounting period beginning on or after**
HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform	1 January 2021
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
Annual Improvements to HKFRS Standards 2018-2020	Annual Improvements to HKFRS Standards 2018-2020 Cycle	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17 (New standard)	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

4 SEGMENT INFORMATION

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

The executive directors of the Company have determined that the Group only has one 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:

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of asphalt mixing plants	**324,124**	376,590
Sales of spare parts and modified equipment	**49,055**	40,597
	373,179	417,187
Revenue from other sources		
Operating lease income of asphalt mixing plants	**5,750**	29,239
	378,929	446,426
Revenue from contracts with customers recognised at a point in time	**373,179**	417,187

(a) Revenue from external customers by country

	2020	2019
	RMB'000	*RMB'000*
People's Republic of China (the "PRC")	**327,035**	406,603
Outside the PRC	**51,894**	39,823
	378,929	446,426

(b) Non-current assets

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

	2020	2019
	RMB'000	*RMB'000*
The PRC	**161,224**	175,396
Outside the PRC	**47,884**	54,011
	209,108	229,407

(c) Information about major customers

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

	2020	2019
	RMB'000	*RMB'000*
Customer A	**7,876**	45,338

No customer with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2020. The amount for the year ended 31 December 2020 shown above is for comparative purpose only.

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

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

	2020	2019
	RMB'000	*RMB'000*
Other income		
Government grants *(Note)*	**2,298**	940
Interest income from a financial asset at fair value through profit or loss	**94**	–
Others	**489**	–
	2,881	940
Other gains/(losses)		
Net gain/(loss) on disposal of property, plant and equipment	**5,701**	(478)
Gain on early termination of leases	**–**	36
Net foreign exchange loss	**(1,133)**	(700)
Others	**397**	(157)
	4,965	(1,299)
	7,846	(359)

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

6 LOSS BEFORE INCOME TAX

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

(a) Finance income, net

	2020 *RMB'000*	2019 *RMB'000*
Finance cost		
Interest expenses on bank borrowings	**2,936**	4,790
Interest expenses on lease liabilities	**80**	71
Interest expense on other borrowing	**253**	455
	3,269	5,316
Finance income		
Interest income on bank deposits	**(1,440)**	(1,512)
Interest income from an associate	**–**	(380)
Interest income from a joint venture	**(360)**	–
Unwinding discount interest on trade receivables not expected to be settled within one year	**(11,491)**	(12,277)
	(13,291)	(14,169)
Finance income, net	**(10,022)**	(8,853)

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

	2020 *RMB'000*	2019 *RMB'000*
Wages, salaries and allowances	**60,860**	64,428
Pension costs – defined contribution plans	**6,839**	12,145
Share-based payment expenses	**1,092**	4,245
	68,791	80,818

(c) Other items

	2020	2019
	RMB'000	*RMB'000*
Cost of inventories	**240,459**	290,391
Cost of operating lease of asphalt mixing plants	**2,080**	11,065
Freight and transportation expenses	**17,547**	15,433
Depreciation and amortisation		
– Property, plant and equipment used for operating leases	**4,989**	9,727
– Other property, plant and equipment	**8,733**	11,699
– Intangible assets	**1,120**	874
Reversal of impairment of trade receivables, net	**(26,055)**	(34,768)
Provision for impairment of other receivables	**110**	–
Provision for impairment of inventories	**32,977**	27,441
Write-off of property, plant and equipment	**–**	489
Provision for impairment of property, plant and equipment	**3,677**	5,870
Commission to distributors	**17,147**	28,440
Research and development costs	**13,230**	17,986
Travelling expenses	**2,368**	4,439
Marketing expenses	**3,671**	3,891
Repair and maintenance expenses	**2,584**	2,565
Auditor's remuneration		
– Audit services	**1,552**	1,858
– Non-audit services	**233**	79
Other expenses	**12,830**	5,698

7 INCOME TAX EXPENSE

	2020	2019
	RMB'000	*RMB'000*
Current income tax:		
– PRC corporate income tax	**1,954**	1,545
– (Over)/under provision in prior years	**(85)**	146
	1,869	1,691
Deferred income tax	**7,330**	6,474
	9,199	8,165

Numerical reconciliation of income tax expense to prima facie tax payable

	2020	2019
	RMB'000	*RMB'000*
Loss before tax	**(8,045)**	(26,911)
Notional tax on loss before tax, calculated at the rates applicable to the jurisdictions concerned (i)	**(1,055)**	(2,940)
Effect of preferential tax rate (ii)	**1,479**	275
Tax losses and other temporary differences for which no deferred tax asset was recognised	**8,829**	6,647
Income not subject to tax	**(1,868)**	(213)
Tax effect of non-deductible expenses	**1,387**	1,773
Additional deduction for qualified research and development expenses (iii)	**(1,488)**	(2,023)
Withholding tax in respect of dividend declared by a subsidiary in the PRC (iv)	**1,000**	1,000
Withholding tax charged on undistributed earnings of a subsidiary (iv)	**1,000**	3,500
(Over)/under provision in prior years	**(85)**	146
	9,199	8,165

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

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

No provision for Hong Kong profits tax for the subsidiaries incorporated or operating in Hong Kong was made as the subsidiaries did not have assessable profits subject to Hong Kong profits tax (2019: Nil).

No provision for Singapore, India and Pakistan income tax was made for the subsidiaries incorporated in these countries, as the subsidiaries did not have assessable profits subject to Singapore, India and Pakistan income tax (2019: Nil).

The Group's PRC subsidiaries are subject to the PRC corporate income tax rate of 25% (2019: 25%).

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

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

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

8 DIVIDENDS

The Directors do not recommend the payment of final dividend for the year ended 31 December 2020 (2019: Nil).

9 LOSS PER SHARE

(a) Basic

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

	2020	2019
Loss attributable to owners of the Company *(RMB'000)*	**(17,244)**	(35,076)
Weighted average number of ordinary shares in issue	**621,958,000**	621,489,000
Basic loss per share *(expressed in RMB cents per share)*	**(2.77)**	(5.64)

(b) Diluted

Diluted loss per share for the years ended 31 December 2020 and 2019 were the same as the basic loss per share as potential ordinary shares arising from share options were not treated as dilutive as the conversion to ordinary shares would not increase the loss per share.

10 INVENTORIES

	2020	2019
	RMB'000	*RMB'000*
Raw materials	**83,502**	99,825
Work in progress	**147,502**	159,601
Finished goods	**–**	11,955
	231,004	271,381

The cost of inventories recognised as expense and included in "cost of sales" amounted to approximately RMB240,459,000 (2019: RMB290,391,000). The inventories as at 31 December 2020 and 2019 were stated at the lower of cost and net realisable value. The provision for inventories of RMB32,977,000 (2019: RMB27,441,000) has been included in "cost of sales" in the consolidated statement of profit or loss for the year ended 31 December 2020.

11 TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables from third-parties *(Notes (a) and (b))*	**251,896**	306,504
Loss allowance	**(60,274)**	(86,329)
Discounting impact	**(11,702)**	(14,541)
	179,920	205,634
Bills receivables	**9,714**	21,251
Total trade and bills receivables	**189,634**	226,885

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

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

	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**159,361**	166,803
1 to 2 years	**38,290**	63,643
2 to 3 years	**16,622**	41,163
Over 3 years	**37,623**	34,895
	251,896	306,504

12 BORROWINGS

Borrowings are analysed as follows:

	2020	2019
	RMB'000	*RMB'000*
Secured bank loans	**31,145**	72,258
Other borrowing *(Note)*	**–**	5,293
	31,145	77,551

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 collateralised other borrowing as the transfer of machinery from the Group to the buyer was not qualified as a sale under HKFRS 15. As at 31 December 2019, the other borrowing amounted to RMB5,293,000.

13 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**69,071**	54,412
Bills payables	**58,123**	49,883
	127,194	104,295
Amount due to a related party	**310**	350
Other payables and accruals	**33,539**	44,346
	33,849	44,696
Total trade and other payables	**161,043**	148,991
Contract liabilities	**73,774**	33,044
	234,817	182,035

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

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**79,469**	66,863
After 3 months but within 6 months	**35,147**	21,834
After 6 months but within 1 year	**9,541**	13,896
Over 1 year	**3,037**	1,702
	127,194	104,295

14 SHARE CAPITAL

Authorised:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares *HK$*
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	2,000,000,000	20,000,000

Issued and fully paid:

	Number of shares *('000)*	Nominal value of ordinary shares *HK$'000*	Nominal value of ordinary shares *RMB'000*	Share Premium *RMB'000*
At 1 January 2019	620,238	6,203	4,897	419,617
Employee share options scheme:				
Shares issued in respect of exercise of share options	1,720	17	15	1,282
At 31 December 2019, 1 January 2020 and 31 December 2020	**621,958**	**6,220**	**4,912**	**420,899**

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2020, the Group continued to be a leading market player in the road construction and maintenance machinery industry, focusing on medium to large-scale asphalt mixing plants. The Group provided one-stop customised solutions to customers in the People's Republic of China ("PRC", "China" or "Mainland China") and overseas markets, specialising in the research and development, design, manufacturing and sale of conventional and recycling asphalt mixing plants.

Business Review

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

During the year, the Group continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were thirty-eight (2019: forty-six) sales contracts of asphalt mixing plants completed by the Group during the year and the asphalt mixing plants were used in major highway construction and maintenance projects such as Xichang Ring Expressway (西昌繞城高速), Guangan Ring Expressway (廣安繞城高速), Xiongan Section of Jingxiong Expressway (京雄高速公路雄安段), Chongqing Hechang Expressway (重慶合長高速公路) etc. Revenue from sales of asphalt mixing plants decreased by approximately 13.9% during the year, whereas, the sales of asphalt mixing plants accounted for approximately 85.5% (2019: 84.4%) 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 the issuing of acceptance of commissioning of our asphalt mixing plants, resulting in the Group not being able to recognise the revenue of certain contracts in 2020. The Group's gross profit decreased to RMB77,997,000 (2019: RMB87,729,000) which was primarily due to the decrease in sales of asphalt mixing plants and the increase in impairment of inventories amounted to RMB32,977,000 (2019: RMB27,441,000) 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 RMB4,719,000 (2019: RMB7,519,000).

The increase in impairment of inventories during the year was mainly due to the slow moving of raw materials and work in progress as a result of COVID-19 and postponement of customers' project delivery schedules. The Group has also specifically reviewed and impaired certain work in progress which were pre-produced for potential orders. 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 eight sets of asphalt mixing plants during the year and diminished the gross loss of operating lease business.

Management has been cautiously monitoring the collection of trade receivables in order to improve the collection cycle. During the year, management continued to put effort in receivable collection and also tightened its credit controls on new and existing customers. The Group has recovered certain long overdue trade receivables of which provision for impairment loss has been made in prior years and re-assessed the recoverability of its trade receivables. 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 RMB26.0 million during the year. Nevertheless, the Group shall strictly adhere to its credit policy and continuously strengthen its internal control procedures so as to improve the receivable collection cycle and shorten the debtors' turnover days.

The Group has been expanding its business and entering into potential markets along the "Belt and Road" countries. Out of the thirty-eight sales contracts of asphalt mixing plants completed during the year, eight were completed in overseas countries including Russia, India, Bahrain and Bangladesh. Although the overseas road construction projects along the "Belt and Road" countries slowed down during the year, the Group has signed one sales contract with a customer in Russia which is expected to be completed in the first half of 2021. To further penetrate the markets in the developing countries, the Group has also developed a compact mobile asphalt plants series to 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 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 year.

* *For identification purpose only*

Development of combustion technology

During the year, the Group continued to conduct research on the combustion technology in order to develop the business of manufacturing and sale of burner combustion equipment and the provision of related technical support services. The burner combustion equipment can be applied in a wide spectrum including asphalt mixing plants, furnace, heating system, etc. As at 31 December 2020, thirty-nine (31 December 2019: thirty-one) patents of combustion technology were registered and one patent was pending registration.

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

On 10 August 2020, the Group's wholly owned subsidiary, 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 "Zhengfang ACT") (as the borrower). It is a wholly owned subsidiary of Zhejiang Zhengfang Holding Limited* ("Zhengfang Holding"), as a guarantor in the Convertible Bond Agreement, is a road construction company in Zhejiang, China and is an existing customer of Langfang D&G.

The Convertible Bond is in a total amount of RMB20 million. Prior to the drawdown, the Zhengfang ACT has increased its registered and paid-up capital to RMB50 million on 17 September 2020. The first tranche of RMB10 million and the second tranche of RMB10 million have been drawdown on 30 October 2020 and 30 December 2020, respectively. 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 Zhengfang ACT shall purchase no less than five sets of asphalt mixing plants from Langfang D&G. As at 31 December 2020, two asphalt mixing plants contracts have been signed of which one of these two contracts has been completed during the year.

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 Zhengfang ACT 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.

* *For identification purpose only*

Research and Development

To maintain its position as a leading market player in the road construction and maintenance machinery industry focusing on medium to large-scale asphalt mixing plants, the Group continued to maintain its strong research and development capabilities. As at 31 December 2020, the Group had one hundred and thirty registered patents in the PRC (of which four were invention patents and one appearance patent) and twenty-seven software copyrights. In addition, thirty-five patents were pending registration as at 31 December 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 year, the Group participated in various promotional events and technical seminars and corporate social responsibility events such as the new product DGX press conference, the Twelfth Forum of China International Engineering Purchasing Alliance on Supply-Demand Cooperation and the Earth Hour 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. In September 2020, the Group was awarded the Industry Cares 2020 by the Federation of Hong Kong Industries. In November 2020, the Group was awarded the "World's Top 100 (Plus 50) Construction Machinery Manufacturer" and "China's Top 50 Specialised Construction Equipment Manufacturers" by the T50 Summit of World Construction Machinery Industry. In December 2020, the Group was awarded the "Hong Kong Green Awards 2020 – Corporate Green Governance Award" which was organised by the Green Council. The Group has won this award for five consecutive years. It is a recognition of the Group's commitment to green governance.

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 that 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 year. However, the Group expects that the ongoing trade war may affect the economies of some of the "Belt and Road" countries which will indirectly affect the Group's export businesses.

During the year, the Group's performance was adversely affected by COVID-19, however, the Group expects that the local demand for asphalt mixing plants 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 the ASEAN region. To utilise the Group's wide clientele base of over 600 asphalt plants spreading across the PRC and 31 nations overseas, the Group is also exploring business opportunities in developing business 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 year ended 31 December 2020, the Group recorded a total revenue of RMB378,929,000 (2019: RMB446,426,000), representing a decrease of approximately 15.1% as compared to last year. The gross profit of the Group decreased from RMB87,729,000 for the year ended 31 December 2019 to RMB77,997,000 for the year ended 31 December 2020, representing a decrease of approximately 11.1%. The overall gross profit margin increased by 0.9 percentage points from 19.7% to 20.6%. The Group recorded a net loss attributable to owners of the Company of RMB17,244,000 compared with a net loss of RMB35,076,000 last year.

	2020	2019	Change
	RMB'000	*RMB'000*	
Sales of asphalt mixing plants	**324,124**	376,590	-13.9%
Sales of spare parts and modified equipment	**49,055**	40,597	20.8%
Operating lease income of asphalt mixing plants	**5,750**	29,239	-80.3%
	378,929	446,426	-15.1%

Sales of Asphalt Mixing Plants

	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue	**324,124**	376,590	-13.9%
Gross profit *(Note)*	**92,759**	106,229	-12.7%
Gross profit margin	**28.6%**	28.2%	0.4pp
Number of contracts	**38**	46	-8
Average contract value	**8,530**	8,187	4.2%

Revenue from the sales of asphalt mixing plants decreased as a result of the decrease in number of contracts completed. 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 28% during the year.

Note: Impairment of inventories of RMB32,977,000 was made for the year ended 31 December 2020 (2019: RMB27,441,000) and charged to the "Cost of sales". The gross profit of the sales of asphalt mixing plants presented above has excluded the provision for impairment of inventories for analysis purpose.

By Types of Plants

	2020	2019	Change
	RMB'000	*RMB'000*	
Recycling Plant			
Revenue	**119,470**	147,015	-18.7%
Gross profit	**35,709**	46,529	-23.3%
Gross profit margin	**29.9%**	31.6%	-1.7pp
Number of contracts	**11**	13	-2
Average contract value	**10,861**	11,309	-4.0%
Conventional Plant			
Revenue	**204,654**	229,575	-10.9%
Gross profit	**57,050**	59,700	-4.4%
Gross profit margin	**27.9%**	26.0%	1.9pp
Number of contracts	**27**	33	-6
Average contract value	**7,580**	6,957	9.0%

Revenue from the sales of Recycling Plants decreased by 18.7% which was mainly due to the decrease in the number of contracts completed and the average contract value during the year. The gross profit margin decreased by 1.7 percentage points to 29.9% during the year. The decrease in gross profit margin was mainly due to the increase in manufacturing costs as a result of the increase in demand for customised asphalt mixing plants. The decrease in the average contract value was mainly due to the decrease in the number of Recycling Plants with high capacity sold as compared to last year.

Revenue from the sales of Conventional Plants decreased by 10.9% primarily because of the decrease in the number of contracts and offset by the increase in the average contract value during the year. The increase in gross profit margin was mainly due to relatively more asphalt mixing plants sold with higher capacity during the year. For the same reason, the average contract value was increased compared to last year.

By Geographical Location

	2020	2019	Change
	RMB'000	*RMB'000*	
PRC			
Revenue	**277,357**	344,480	-19.5%
Gross profit	**81,770**	98,074	-16.6%
Gross profit margin	**29.5%**	28.5%	1.0pp
Number of contracts	**30**	41	-11
Average contract value	**9,245**	8,402	10.0%
Overseas			
Revenue	**46,767**	32,110	45.6%
Gross profit	**10,989**	8,155	34.8%
Gross profit margin	**23.5%**	25.4%	-1.9pp
Number of contracts	**8**	5	3
Average contract value	**5,846**	6,422	-9.0%

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 slightly increased by 1.0 percentage points to 29.5% during the year. The increase in average contract value during the year was mainly due to the proportional increase in the number of asphalt mixing plants with higher capacity sold during the year.

Revenue from the overseas sales increased mainly because of the increase in the number of contracts completed. The gross profit margin decreased by 1.9 percentage points to 23.5% was mainly due to all asphalt mixing plants sold during the year were 3000 model series or below which have lower gross profit margin. The decreased in the average contract value was mainly due to one of the sales in Bangladesh with relatively low contract price during the year.

Sales of Spare Parts and Components and Modified Equipment

	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue	**49,055**	40,597	20.8%
Gross profit	**22,934**	16,460	39.3%
Gross profit margin	**46.8%**	40.5%	6.3pp

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

The revenue from sales of spare parts and components amounted to RMB26,451,000 (2019: RMB22,075,000). The revenue from sales of modified equipment and RMB22,604,000 (2019: RMB18,522,000). The increase in revenue was mainly due to the increase in the number of customers demanded for repair and maintenance of asphalt mixing plants and modification of Conventional Plants. The gross profit margin increased by 6.3 percentage points during the year was mainly due to the improvement in gross profit margin of sales of modified equipment to 50.3% (2019: 35.3%).

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 RMB5,750,000 during the year (2019: RMB29,239,000). The decrease in revenue by 80.3% was primarily because the total volume of productions decreased as compared to last year. The decrease in production output by customers during the year was due to eight asphalt mixing plants were disposed. During the year, the Group recorded a gross loss (including impairment losses of property, plant and equipment) for its operating lease business of approximately RMB4,719,000 (2019: RMB7,519,000). 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 year. In addition, in the view of continuing loss of the operating lease business, the Group has made an impairment loss of property, plant and equipment of RMB3,677,000 (2019: RMB5,870,000) in respect of the fixed assets in Pakistan during the year. Since 2019, the Group has continued to dispose certain asphalt mixing plants and diminished the gross loss of operating lease business during the year. A gain on disposal of eight sets of asphalt mixing plants amounted to RMB5,701,000 (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 and to improve the operating lease project quality by strengthening the control of contract review and implementation. As at 31 December 2020, four asphalt mixing plants (31 December 2019: twelve) were held for operating lease business.

Other Income and Other Gains/(Losses), Net

During the year, other income and other gains/(losses), net mainly represented net exchange loss arising from trading transactions and translation of pledged bank deposits, government grants 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 year.

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses, and legal and professional fees. During the year, the administrative expenses decreased by approximately RMB15.7 million was mainly due to the decrease in research and development expenses by RMB4.8 million and the decrease in share-based payment expenses by RMB3.2 million in relation to the share options granted in June 2018.

Net Reversal of Impairment Losses on Financial Assets

The amount represented the net reversal of impairment losses on trade receivables of RMB26.0 million and provision for impairment of other receivables of RMB110,000 (2019: net reversal of impairment losses on trade receivables of RMB34.8 million). The reversal of impairment losses was mainly due to the settlement of long overdue trade receivables during the year. Management is expected to continue to receive settlement from long overdue trade receivables and have reversal on the provision for impairment losses.

Share of Profit of Associates

The amount mainly represented the share of the profit of Topp Financial Leasing (Shanghai) Co., Ltd.* ("Shanghai Topp") of RMB2,746,000.

Share of Profit of a Joint Venture

The amount represented the share of the profit of Sichuan RTDL of RMB455,000. 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 year was mainly due to the decrease in interest expenses as decrease in borrowings.

Income Tax Expense

Income tax expense for the year ended 31 December 2020 mainly resulted from the profits tax incurred by a PRC subsidiary of the Company which is a "high and new technology enterprise" entitled to a preferential tax rate of 15%, and the deferred income tax expenses which was mainly resulted from the decrease in deferred tax assets recognised and the withholding tax provided for the unremitted earnings of a PRC subsidiary of the Company.

* *For identification purpose only*

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company amounted to approximately RMB17.2 million for the year ended 31 December 2020 compared with approximately RMB35.1 million for the year ended 31 December 2019. The loss for the year 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 RMB432,523,000 (31 December 2019: RMB423,207,000) with a current ratio of 2.6 times (31 December 2019: 2.6 times) as at 31 December 2020.

Inventories decreased by RMB40,377,000 from RMB271,381,000 as at 31 December 2019 to RMB231,004,000 as at 31 December 2020. Inventory turnover days was 305 days for the year ended 31 December 2020, representing an increase of 20 days as compared to 285 days for the year ended 31 December 2019. The decrease in inventories and increase in inventory turnover days was mainly due to the provision for slow moving raw materials and work in progress primarily resulted from the customised design of asphalt mixing plants required by customers.

Trade and bill receivables decreased by RMB37,251,000 from RMB226,885,000 as at 31 December 2019 to RMB189,634,000 as at 31 December 2020. Trade and bill receivables turnover days was 201 days for the year ended 31 December 2020, representing an increase of 13 day as compared to 188 days for the year ended 31 December 2019. The decrease in trade and bill receivables was primarily due to the net reversal of impairment loss of RMB26.0 million provided during the year. The increase in trade and bills receivables turnover days during the year 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 bill payables increased by RMB22,899,000 from RMB104,295,000 as at 31 December 2019 to RMB127,194,000 as at 31 December 2020. Trade and bill payables turnover days was 140 days for the year ended 31 December 2020, representing an increase of 11 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 subcontractors.

Liquidity and Financial Resources

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

As at 31 December 2020, the Group had cash and cash equivalents of RMB188,778,000 (31 December 2019: RMB94,912,000) and pledged bank deposits of RMB49,011,000 (31 December 2019: RMB47,413,000). In addition, the Group had interest-bearing bank borrowings of RMB31,145,000 (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 4.8% (31 December 2019: 11.6%).

During the year ended 31 December 2020, the Group recorded a net cash generated from operating activities of RMB126,520,000 (2019: RMB29,903,000). Net cash generated from investing activities amounted to RMB9,680,000 (2019: net cash used in investing activities RMB7,903,000) for the year ended 31 December 2020. Net cash used in financing activities for the year ended 31 December 2020 amounted to RMB40,301,000 (2019: net cash generated from financing activities RMB8,961,000).

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 year are as follows:

	At 31 December 2020	At 31 December 2019
	RMB'000	*RMB'000*
Contracted for:		
– Investment in an associate	**–**	3,000
– Investment in a joint venture	**4,500**	–
– Property, plant and equipment	**2,015**	2,320
	6,515	5,320

As at 31 December 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 31 December 2020, the Group's maximum exposure to such guarantees was approximately RMB91,570,000 (2019: RMB76,769,000).

Pledge of Assets

As at 31 December 2020, property, plant and equipment of RMB42,419,000 (31 December 2019: RMB45,647,000), land use right of RMB4,705,000 (31 December 2019: RMB4,835,000) and bank deposits of RMB49,011,000 (31 December 2019: RMB47,413,000) were pledged for borrowings and bill payables of the Group.

Foreign Exchange Risk

The reporting currency of the Group was Renminbi. The Group was exposed to foreign exchange risk through sales and purchases which were denominated in a foreign currency including US dollars and Euros. The appreciation or depreciation of Renminbi against these foreign currencies would increase or decrease the price of the Group's products which were sold to overseas markets and might bring negative or positive impact on the Group's export sales. On the other hand, the appreciation or depreciation of Renminbi would also decrease or increase the cost of sales of the Group in respect of the purchases of raw materials from overseas. The management has continuously monitored the level of exchange rate exposure and shall adopt financial hedging instruments for hedging purpose when necessary. The Group did not use any financial instruments for hedging purpose for the year ended 31 December 2020.

Significant Investments and Material Acquisitions or Disposals

During the year ended 31 December 2020, the Group did not have any significant investments or material acquisitions or disposals.

EVENT AFTER THE REPORTING PERIOD

In January 2021, a new wave of COVID-19 outbreak in Hebei Province and Langfang City went into lockdown and residences put under home quarantine for seven days. The domestic and overseas logistic arrangements have been slightly affected due to transportation restrictions 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 logistic has resumed back to normal in February 2021. The Group will keep continuous monitoring of the situation of the COVID-19 and adjust its operational and financial strategies to minimise their impact on the financial position and performance of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group had approximately 402 (2019: 436) employees. The total staff costs for the year ended 31 December 2020 amounted to approximately RMB68,791,000 (2019: RMB80,818,000).

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

The Group has adopted a share option scheme pursuant to which employees and Directors may be granted options to subscribe for shares of the Company as incentives or rewards for their service rendered to the Group. No option has been granted during the year ended 31 December 2020 and 2019.

DIVIDENDS

The Directors do not recommend the payment of final dividend for the year ended 31 December 2020 (2019: Nil).

ANNUAL GENERAL MEETING

The 2021 annual general meeting ("2021 AGM") will be held on Friday, 28 May 2021, and the notice of the 2021 AGM will be published and despatched in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2021 AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 May 2021.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the year ended 31 December 2020, the Company, in the opinion of the Directors, complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

SUSTAINABILITY

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

The sustainability report (the "Sustainability Report") of the Group demonstrated the integration of environmental, social and governance considerations in its business approach. The innovative technology and sustainable products carry a strong message: with every segment of road paved with asphalt mixtures from our asphalt mixing plants, we leave an imprint of sustainability. The Sustainability Report will be published on the website of Hong Kong Exchanges and Clearing Limited and the website of the Company in due course, which provides the sustainability performance of the Group for the year ended 31 December 2020, and sets out the sights and plans of the Group for the future.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Specific enquiry was made to all the Directors and all the Directors confirmed that they complied with the Model Code throughout the year ended 31 December 2020.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has an audit committee (the "Audit Committee") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control systems. The Audit Committee comprises four members, namely Mr. O'Yang Wiley (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson. All of them are independent non-executive Directors. The final results of the Group for the year ended 31 December 2020 have been reviewed by the Audit Committee.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the reporting year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The 2020 annual report will also be published on the website of Hong Kong Exchanges and Clearing Limited and the website of the Company and will be despatched to the shareholders of the Company in due course.

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

Hong Kong, 30 March 2021

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