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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors (the "Board" or the "Directors") of D&G Technology Holding Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2021 together with the comparative figures for the same period of last year, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Unaudited	
		Six months ended 30 June	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**197,078**	128,331
Cost of sales		**(130,989)**	(114,104)
Gross profit		**66,089**	14,227
Other income and other gains, net	*6*	**2,931**	4,035
Distribution costs		**(38,578)**	(28,884)
Administrative expenses		**(33,489)**	(30,214)
Net reversal of impairment losses on financial assets		**5,331**	10,880

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Unaudited	
		Six months ended 30 June	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Operating profit/(loss)	*7*	**2,284**	(29,956)
Finance income, net		**7,202**	5,145
Share of profit of an associate		**958**	1,507
Share of profit/(loss) of a joint venture		**465**	(190)
Profit/(loss) before income tax		**10,909**	(23,494)
Income tax expense	*8*	**(2,681)**	(3,515)
Profit/(loss) for the period attributable to owners of the Company		**8,228**	(27,009)
Earnings/(loss) per share attributable to owners of the Company during the period			
– Basic (RMB cents)	*9(a)*	**1.31**	(4.34)
– Diluted (RMB cents)	*9(b)*	**1.27**	(4.34)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Profit/(loss) for the period	**8,228**	(27,009)
Other comprehensive (loss)/income for the period, net of tax		
Items that may be reclassified to profit or loss		
Currency translation differences	**(999)**	2,952
Total comprehensive profit/(loss) attributable to owners of the Company for the period	**7,229**	(24,057)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	**Unaudited 30 June 2021 *RMB'000***	Audited 31 December 2020 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**122,574**	127,298
Intangible assets		**2,219**	2,680
Investment in an associate		**57,717**	56,759
Investment in a joint venture		**–**	1,825
Amount due from a joint venture		**–**	546
Financial asset at fair value through profit or loss		**20,000**	20,000
Deferred tax assets		**11,621**	12,342
Total non-current assets		**214,131**	221,450
Current assets			
Inventories		**241,965**	231,004
Trade and bills receivables	*10*	**197,161**	189,634
Amount due from a joint venture		**2,888**	4,416
Prepayments, deposits and other receivables		**52,718**	38,835
Pledged bank deposits		**67,126**	49,011
Cash and cash equivalents		**213,819**	188,778
Total current assets		**775,677**	701,678
Non-current asset classified as asset held for sale		**1,790**	–
Total assets		**991,598**	923,128

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2021

	Note	**Unaudited 30 June 2021** *RMB'000*	Audited 31 December 2020 *RMB'000*
EQUITY			
Share capital	*13*	**5,059**	4,912
Other reserves		**580,190**	567,538
Retained earnings		**82,133**	74,766
Total equity		**667,382**	647,216
LIABILITIES			
Non-current liabilities			
Lease liabilities		**1,868**	2,257
Deferred tax liabilities		**4,500**	4,500
Total non-current liabilities		**6,368**	6,757
Current liabilities			
Borrowings	*11*	**27,804**	31,145
Trade and other payables	*12*	**196,114**	161,043
Contract liabilities	*12*	**91,553**	73,774
Lease liabilities		**1,025**	1,265
Amount due to a joint venture		**–**	500
Income tax payable		**1,352**	1,428
Total current liabilities		**317,848**	269,155
Total liabilities		**324,216**	275,912
Total equity and liabilities		**991,598**	923,128

NOTES

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 (the "Stock Exchange") 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 2021 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 2020, 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 2020, 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 2021:

- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

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 2021 and have not been early adopted by the Group:

Standards	**Subject**	**Effective for annual periods beginning on or after**
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
AG 5 (revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 1	Classification of Liabilities as Current and Non-current (amendments)	1 January 2023
HK Int 5 (2020)	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
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 the 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 of the Group for the year ended 31 December 2020.

5 SEGMENT INFORMATION

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

The 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	
	2021	2020
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of asphalt mixing plants	**180,559**	111,476
Sales of spare parts and modified equipment	**14,312**	15,795
	194,871	127,271
Revenue from other sources		
Operating lease income of asphalt mixing plants	**2,207**	1,060
	197,078	128,331
Revenue from contracts with customers recognised at a point in time	**194,871**	127,271

(a) Revenue from external customers by country

	Unaudited Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
People's Republic of China (the "PRC")	**185,641**	95,348
Outside the PRC	**11,437**	32,983
	197,078	128,331

5 SEGMENT INFORMATION (CONTINUED)

(b) Non-current assets

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

	Unaudited At 30 June 2021	Audited At 31 December 2020
	RMB'000	*RMB'000*
The PRC	**155,516**	161,224
Outside the PRC	**46,994**	47,884
	202,510	209,108

(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	
	2021	2020
	RMB'000	*RMB'000*
Customer A	**–**	14,211

No customer with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2021. The amount for the six months ended 30 June 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 six months ended 30 June 2020.

6 OTHER INCOME AND OTHER GAINS, NET

	Unaudited Six months ended 30 June 2021 *RMB'000*	2020 *RMB'000*
Other income		
Government grants *(Note)*	**133**	827
Interest income from a financial asset at fair value through profit or loss	**566**	–
Others	**92**	11
	791	838
Other gains, net		
Net gain on disposal of property, plant and equipment	**1,594**	6,328
Exchange gain/(loss), net	**124**	(3,306)
Others	**422**	175
	2,140	3,197
	2,931	4,035

Note:

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

7 OPERATING PROFIT/(LOSS)

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

	Unaudited Six months ended 30 June 2021 *RMB'000*	2020 *RMB'000*
Cost of inventories	**128,518**	106,165
Employee benefit expenses	**35,104**	32,677
Share-based payment expenses	**–**	1,009
Depreciation and amortisation		
– Property, plant and equipment under operating leases	**841**	3,117
– Other property, plant and equipment	**4,249**	4,632
– Intangible assets	**543**	567
Net reversal of impairment losses of trade receivables	**(5,221)**	(10,880)
Net reversal of impairment losses of other receivables	**(110)**	–
Provision for impairment of inventories	**128**	15,586
Provision for impairment of property, plant and equipment	**–**	3,677

8 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**(1,456)**	(52)
– Withholding tax	**(1,296)**	–
– Over-provision in prior period	**792**	85
Deferred income tax	**(721)**	(3,548)
	(2,681)	(3,515)

No provision for Hong Kong profits tax was made for the current period (2020: Nil) as the Group had no assessable profits subject to Hong Kong profits tax for the period.

The Group's operations in the PRC are subject to PRC enterprise income tax at a statutory rate of 25% (2020: 25%).

According to the PRC enterprise income tax law and its relevant regulations, 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 tax law and entitled to a preferential income tax rate of 15% (2020: 15%).

Under the PRC enterprise income tax law and its relevant regulations, a 75% (2020: 75%) additional tax deduction is allowed for qualified research and development expenses.

9 EARNINGS/(LOSS) PER SHARE

(a) Basic

The calculation of basic earnings/(loss) per share is based on the profit/(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 earnings/(loss) per share are as follows:

	Unaudited	
	Six months ended 30 June	
	2021	2020
Profit/(loss) attributable to owners of the Company *(RMB'000)*	**8,228**	(27,009)
Weighted average number of ordinary shares in issue	**629,671,000**	621,958,000
Basic earnings/(loss) per share *(expressed in RMB cents per share)*	**1.31**	(4.34)

9 EARNINGS/(LOSS) PER SHARE (CONTINUED)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares arise from the share options, for which calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited	
	Six months ended 30 June	
	2021	2020
Profit/(loss) attributable to owners of the Company (RMB'000)	**8,228**	(27,009)
Weighted average number of ordinary shares in issue	**629,671,000**	621,958,000
Adjustment for share options *(Note)*	**17,968,000**	–
Weighted average number of ordinary shares for diluted earnings/(loss) per share	**647,639,000**	621,958,000
Diluted earnings/(loss) per share (expressed in RMB cents per share)	**1.27**	(4.34)

Note:

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

10 TRADE AND BILLS RECEIVABLES

	Unaudited At 30 June 2021 *RMB'000*	Audited At 31 December 2020 *RMB'000*
Trade receivables from third parties	**249,059**	251,896
Discounting impact	**(11,908)**	(11,702)
Loss allowance	**(55,053)**	(60,274)
	182,098	179,920
Bills receivables	**15,063**	9,714
Total trade and bills receivables	**197,161**	189,634

(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 2021 *RMB'000*	Audited At 31 December 2020 *RMB'000*
Within 1 year	**170,504**	159,361
1 to 2 years	**30,022**	38,290
2 to 3 years	**9,773**	16,622
Over 3 years	**38,760**	37,623
	249,059	251,896

11 BORROWINGS

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

	Secured bank loans	
	Unaudited	Audited
	At	At
	30 June	31 December
	2021	2020
	RMB'000	*RMB'000*
Within 1 year	**27,804**	31,145

As at 30 June 2021, borrowings of RMB13,001,000 (31 December 2020: RMB13,599,000) were secured by pledged bank deposits of RMB22,645,000 (31 December 2020: RMB22,856,000) and property, plant and equipment of RMB34,189,000 (31 December 2020: RMB34,699,000) while borrowings of RMB4,399,000 (31 December 2020: Nil) were secured by bills receivables of RMB4,399,000. The remaining borrowings of RMB10,404,000 (31 December 2020: RMB17,546,000) were secured by the corporate guarantee provided by the Company.

Movements in borrowings are analysed as follows:

	RMB'000
Unaudited:	
Balance at 1 January 2021	**31,145**
Repayments of borrowings	**(7,424)**
Proceeds from borrowings	**4,399**
Exchange difference	**(316)**
Balance at 30 June 2021	**27,804**

	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

12 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	Unaudited At 30 June 2021 *RMB'000*	Audited At 31 December 2020 *RMB'000*
Trade payables	**61,190**	69,071
Bills payables *(Note)*	**98,437**	58,123
	159,627	127,194
Amount due to a related party	**310**	310
Other payables and accruals	**36,177**	33,539
	36,487	33,849
Total trade and other payables	**196,114**	161,043
Contract liabilities	**91,553**	73,774
	287,667	234,817

Note:

The Group's bills payables were secured by the Group's pledged bank deposits of approximately RMB44,481,000 (31 December 2020: RMB26,155,000), property, plant and equipment of RMB7,277,000 (31 December 2020: RMB7,720,000) and land use right of RMB4,638,000 (31 December 2020: RMB4,705,000).

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 2021 *RMB'000*	Audited At 31 December 2020 *RMB'000*
Within 3 months	**93,293**	79,469
After 3 months but within 6 months	**50,951**	35,147
After 6 months but within 1 year	**13,242**	9,541
Over 1 year	**2,141**	3,037
	159,627	127,194

13 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 2020, 30 June 2020, 1 January 2021 and 30 June 2021	2,000,000,000	20,000,000

Issued and fully paid:

	No. of shares		
	('000)	*HK$'000*	*RMB'000*
At 1 January 2020, 30 June 2020 and 1 January 2021	621,958	6,220	4,912
Exercise of options under the share option scheme *(Note)*	17,450	175	147
At 30 June 2021	**639,408**	**6,395**	**5,059**

Note: Proceeds from the exercise of share options amounted to approximately RMB12,937,000 for the six months ended 30 June 2021.

(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.

14 INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2021 (2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

General Review

In the first half of 2021, 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 2021, the Group continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were twenty (2020: thirteen) 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 Anhui Bengbu-Wuhe Expressway (安徽蚌五高速), Hegang-Dalian Expressway (鶴大高速), Dhaka Highway (達卡公路), etc. Revenue from sales of asphalt mixing plants increased by approximately 62.0% during the period, whereas, the sales of asphalt mixing plants accounted for approximately 91.6% (2020: 86.9%) of the total revenue of the Group. Such increase was mainly attributable to the increase in sales of the Group amidst the gradual recovery of the economy from the impact of the Coronavirus Disease 2019 ("COVID-19") pandemic. The Group's gross profit increased to RMB66,089,000 (2020: RMB14,227,000) which was mainly attributable to the increase in sales of asphalt mixing plants; the decrease in provision for impairment of inventories amounted to RMB128,000 (2020: RMB15,568,000); and the absence of impairment of property, plant and equipment (2020: RMB3,677,000).

The decrease in provision for impairment of inventories during the period was mainly due to the procedures developed by the Group to closely monitor the inventory levels of slow-moving raw materials and work in progress as a result of COVID-19. The Group expects it will continue to improve gradually.

On the other hand, the Group has made a gross loss in the operating lease business since 2018, mainly due to the delay in public-private partnership projects in China, the outbreak of COVID-19 and the 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, which resulted in a loss-making position. Since 2019, the Group has scaled down the operating lease business to diminish the gross loss and only three asphalt mixing plants were held as at 30 June 2021. Thus, no additional impairment of property, plant and equipment has been made during the period.

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 has also improved. The Group therefore made a reversal of provision for impairment loss of trade receivables of approximately RMB5.2 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 twenty sales contracts of asphalt mixing plants completed during the period, three were completed in overseas countries including Bangladesh, Cameroon and Liberia. Although the overseas road construction projects along the "Belt and Road" countries slowed down during the period, the Group has entered into one sales contract with a customer in Russia, which is 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 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 to resume once the COVID-19 situation 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 seeking 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 30 May 2021, Langfang De Feng New Materials Technology Limited* (“Langfang De Feng”) entered into a share transfer agreement with Sichuan Xin De Yuan Trading Limited* (“Sichuan Xin De Yuan”) to transfer 50% of equity interest in Sichuan RTDL to its joint venture partner for a consideration of approximately RMB2.4 million.

Upon the completion of the share transfer, Sichuan RTDL will be 100% owned by Sichuan Xin De Yuan and Langfang De Feng will have no interest in Sichuan RTDL and thus Sichuan RTDL will no longer be a joint venture of the Group.

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 since the joint venture was formed. The Group’s management has reassessed the business development potential of Sichuan RTDL and considered that the share transfer offers an opportunity for the Group to realise its investment at a profit and can provide funds to cater for other new suitable investment opportunities with more growth potential in the development of production and sales of asphalt mixture plant business.

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 2021, forty (31 December 2020: thirty-nine) patents of combustion technology were registered, 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 with Zhejiang Zhengfang Asphalt Concrete Technology Limited* (the "Zhengfang ACT") (as the borrower). It is a wholly owned subsidiary of Zhejiang Zhengfang Holding Limited, as a guarantor in the convertible bond agreement, 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. 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, Langfang D&G has the right to exercise its equity conversion option at the conversion ratio of the higher of (i) 1.5 times of the net assets of the Zhengfang ACT as at 31 December 2023 or (ii) 6 times of the weighted average of its net profits for the years ended 31 December 2022 and 2023, both of which are calculated with reference to its audited accounts prepared in accordance with the PRC generally accepted accounting principles.

Partnership with LiuGong Wuxi Road Equipment Co., Ltd. (“LiuGong Road Equipment”)*

In May 2021, the Group has entered into an agreement with LiuGong Road Equipment to become the exclusive supplier of asphalt mixing plant for LiuGong Road Equipment. The Group will research and develop, design and manufacture products under the label of “LiuGong”, by leveraging its technical strength, as well as LiuGong’s well-established distribution network and strong financial services capabilities, to sell the products to domestic and overseas markets. The Group expects this strategic partnership will further penetrate the mid-end asphalt mixing plant market to win more orders and expand its revenue stream. Furthermore, the collaboration enables LiuGong Road Equipment to enrich and improve its one-stop road construction equipment solution to achieve a win-win situation.

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 2021, the Group had one hundred and forty-nine registered patents in the PRC (of which four were invention patents and two appearance patent) and twenty-seven software copyrights. In addition, the registration of twenty-four patents were pending approval as at 30 June 2021.

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 promotional events, technical seminars and corporate social responsibility events such as the Green Road Maintenance Equipment Exchange Conference with Dynapac Group held in Qinghai, the Bauma CTT Russia 2021 held in Russia, the Green Carnival 2021 and the Earth Hour 2021.

In March 2021, the Group was awarded the “5 Years Plus Caring Company” which was organised by the Hong Kong Council of Social Service.

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 arising from the "Belt and Road" construction projects once the tension between the 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 the US, the Group does not export its products to the US. The US-China trade war does not have direct impact on the Group's performance during the 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.

The Group expects that the local demand for asphalt mixing plants in the second half of 2021 shall gradually increase as the PRC government would inject more funds into domestic infrastructure projects to stimulate the local economy. 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 600 asphalt plants spreading across the PRC and 35 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 2021, the Group recorded a total revenue of RMB197,078,000 (2020: RMB128,331,000), representing an increase of approximately 53.6% as compared to the last corresponding period. Gross profit increased from RMB14,227,000 for the six months ended 30 June 2020 to RMB66,089,000 for the six months ended 30 June 2021, representing an increase of approximately 364.5%. Gross profit margin increased by 22.4 percentage points from 11.1% to 33.5%. The Group recorded a net profit attributable to owners of the Company of RMB8,228,000 compared with a net loss of RMB27,009,000 in the last corresponding period.

	Six months ended 30 June		
	2021	2020	Change
	RMB'000	*RMB'000*	
Sales of asphalt mixing plants	**180,559**	111,476	62.0%
Sales of spare parts and modified equipment	**14,312**	15,795	-9.4%
Operating lease income of asphalt mixing plants	**2,207**	1,060	108.2%
	197,078	128,331	53.6%

Sales of Asphalt Mixing Plants

	Six months ended 30 June		
	2021	2020	Change
	RMB'000	*RMB'000*	
Revenue	**180,559**	111,476	62.0%
Gross profit *(Note)*	**61,017**	30,111	102.6%
Gross profit margin	**33.8%**	27.0%	6.8pp
Number of contracts	**20**	13	7
Average contract value	**9,028**	8,575	5.3%

Revenue from the sales of asphalt mixing plants increased as a result of the increase in number of contracts and the increase in the gross profit margin. The increase in number of contracts was mainly due to the gradual recovery of the economy from the impact of the COVID-19 pandemic. The increase in the gross profit margin was primarily due to the increase in the number of sales with higher capacity (usually with higher gross profit margin). For the same reason, the average contract value increased as compared to the last corresponding period.

Note: Impairment of inventories of RMB128,000 was made for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB15,586,000) 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		
	2021	2020	Change
	RMB'000	*RMB'000*	
Recycling Plant			
Revenue	**94,446**	38,961	142.4%
Gross profit	**30,833**	11,380	170.9%
Gross profit margin	**32.6%**	29.2%	3.4pp
Number of contracts	**8**	4	4
Average contract value	**11,806**	9,740	21.2%
Conventional Plant			
Revenue	**86,113**	72,515	18.8%
Gross profit	**30,184**	18,731	61.1%
Gross profit margin	**35.1%**	25.8%	9.3pp
Number of contracts	**12**	9	3
Average contract value	**7,176**	8,057	-10.9%

Revenue from the sales of Recycling Plants increased by 142.4% which was mainly due to the increase in the number of contracts completed and the increase in the average contract value during the period. The increase in gross profit margin was mainly due to the increase in the number of sales for Recycling 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. For the same reason, the average contract value increased as compared to the last corresponding period.

Revenue from the sales of Conventional Plants increased by 18.8% primarily because of the increase in the number of contracts and offset by the decrease in the average contract value during the period. The decrease in the average contract value was mainly attributable to relatively more asphalt mixing plants sold with lower capacity (PM model series) as compared to the last corresponding period.

By Geographical Location

	Six months ended 30 June		
	2021	2020	Change
	RMB'000	*RMB'000*	
PRC			
Revenue	**171,696**	81,180	111.5%
Gross profit	**59,530**	23,027	158.5%
Gross profit margin	**34.7%**	28.4%	6.3pp
Number of contracts	**17**	9	8
Average contract value	**10,100**	9,020	12.0%
Overseas			
Revenue	**8,863**	30,296	-70.7%
Gross profit	**1,487**	7,084	-79.0%
Gross profit margin	**16.8%**	23.4%	-6.6pp
Number of contracts	**3**	4	-1
Average contract value	**2,954**	7,574	-61.0%

Revenue from the PRC sales increased primarily because of the increase in the number of contracts completed and the increase in the average contract value. The gross profit margin increased by 6.3 percentage points to 34.7% was mainly due to the increase in the number of sales with higher capacity sold during the period. For the same reason, the average contract value increased as compared to the last corresponding period.

Revenue from the overseas sales decreased mainly because of the decrease in the number of contracts completed and the average contract value. The gross profit margin decreased by 6.6 percentage points to 16.8% was mainly due to asphalt mixing plants sold during the period were all PM model series which have lower contract price and lower gross profit margin.

Sales of Spare Parts and Components and Modified Equipment

	Six months ended 30 June		
	2021	2020	Change
	RMB'000	*RMB'000*	
Revenue	**14,312**	15,795	-9.4%
Gross profit	**5,464**	6,653	-17.9%
Gross profit margin	**38.2%**	42.1%	-3.9pp

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 RMB12,570,000 (2020: RMB10,629,000) and the revenue from sales of modified equipment amounted to RMB1,742,000 (2020: RMB5,166,000). The decrease in revenue was mainly due to the decrease in the number of customers demand for modification of Conventional Plants. The gross profit margin decreased by 3.9 percentage points during the period was mainly due to more competitive pricing given to the customers in order to attract new customers.

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 RMB2,207,000 during the period (2020: RMB1,060,000). The increase in revenue by 108.2% because the total volume of productions increased as compared to the last corresponding period. During the period, the Group recorded a gross loss (including impairment losses of property, plant and equipment) for its operating lease business of approximately RMB264,000 (2020: RMB6,951,000). The gross loss was mainly because of the revenue of customers' production of asphalt mixtures could not cover the fixed overheads, including but not limited to staff costs and depreciation, charged during the period. Since 2019, the Group has continued to dispose certain asphalt mixing plants and diminish the gross loss of operating lease business during the period. A gain on disposal of one set of asphalt mixing plants amounted to RMB1,594,000 (2020: RMB6,328,000) was recorded in "Other income and other gains, 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 2021, three asphalt mixing plants (31 December 2020: four) were held for operating lease business.

Other Income and Other Gains, Net

During the period, other income and other gains, net mainly represented net exchange gain arising from trading transactions and translation of pledged bank deposits and gain on disposal of property, plant and equipment. The decrease was mainly due to the decrease 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. Increase in distribution costs was mainly due to the increase in sales of asphalt mixing plants through distributors and the increase in service fee to enhanced the after-sales service performance to the customers 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 increased by approximately RMB3.3 million mainly due to the increase in research and development expenses by RMB4.2 million and the decrease in share-based payment expenses by RMB1.1 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 RMB5.2 million and reversal of impairment losses on other receivables of RMB110,000 (2020: net reversal of impairment losses on trade receivables of RMB10.9 million). The reversal of provision for impairment loss was mainly due to the settlement of long overdue trade receivables during the period. Management expects to continue to receive settlements from long overdue trade receivables and have reversal on the provision for impairment losses.

Share of Profit of an Associate

The amount represented the share of the profit of Topp Financial Leasing (Shanghai) Co., Ltd.* ("Shanghai Topp") of RMB958,000.

Share of Profit/(Loss) of a Joint Venture

The amount represented the share of the profit of Sichuan RTDL of RMB465,000. 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 there was a decrease in borrowings.

Income Tax Expense

The income tax expense for the six months ended 30 June 2021 was mainly attributable to the deferred tax expense arisen from the reversal of impairment losses on trade receivables, the profit 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 withholding tax provided for the dividend declared by a PRC subsidiary of the Company.

Profit/(Loss) Attributable to Owners of the Company

Profit attributable to owners of the Company amounted to approximately RMB8.2 million for the six months ended 30 June 2021 compared with the loss attributable to owners of the Company of approximately RMB27.0 million for the six months ended 30 June 2020. The increase in profit for the period was mainly due to the increase in revenue and gross profit, partially offset by the increase in distribution costs as discussed above.

Working Capital Management

Net current assets of the Group amounted to RMB457,829,000 (31 December 2020: RMB432,523,000) with a current ratio of 2.4 times (31 December 2020: 2.6 times) as at 30 June 2021.

Inventories increased by RMB10,961,000 from RMB231,004,000 as at 31 December 2020 to RMB241,965,000 as at 30 June 2021. Inventory turnover days was 327 days for the six months ended 30 June 2021, representing an increase of 22 days as compared to 305 days for the year ended 31 December 2020. The increase in inventories and inventory turnover days was mainly due to the increase in raw materials purchased and work in progress for sales contracts signed but not yet recognised.

Trade and bills receivables increased by RMB7,527,000 from RMB189,634,000 as at 31 December 2020 to RMB197,161,000 as at 30 June 2021. Trade and bills receivables turnover days was 178 days for the six months ended 30 June 2021, representing a decrease of 23 days as compared to 201 days for the year ended 31 December 2020. The decrease in trade and bills receivables turnover days during the period was primarily due to (1) the increase in deposits placed by customers during the period; (2) the increase in number of sales contracts completed; and (3) more timely settlement from PRC customers for the sales contracts entered into during the period. The Group will continue to cautiously monitor the trade receivables collection process so as to improve the collection cycle.

Trade and bills payables increased by RMB32,433,000 from RMB127,194,000 as at 31 December 2020 to RMB159,627,000 as at 30 June 2021. Trade and bills payables turnover days was 198 days for the six months ended 30 June 2021, representing an increase of 58 days as compared to 140 days for the year ended 31 December 2020. 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 2021, the Group had cash and cash equivalents of RMB213,819,000 (31 December 2020: RMB188,778,000) and pledged bank deposits of RMB67,126,000 (31 December 2020: RMB49,011,000). In addition, the Group had interest-bearing bank borrowings of RMB27,804,000 (31 December 2020: RMB31,145,000). 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 4.2% (31 December 2020: 4.8%).

During the six months ended 30 June 2021, the Group recorded cash generated from operating activities of RMB9,401,000 (six months ended 30 June 2020: cash used in operating activities of RMB6,131,000). Net cash generated from investing activities amounted to RMB7,540,000 (six months ended 30 June 2020: RMB25,765,000) for the six months ended 30 June 2021. Net cash generated from financing activities for the six months ended 30 June 2021 amounted to RMB8,833,000 (six months ended 30 June 2020: cash used in financing activities of RMB20,697,000).

Capital Commitments and Contingent Liabilities

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

	At 30 June 2021	At 31 December 2020
	RMB'000	*RMB'000*
Contracted for		
– Investment in a joint venture	**–**	4,500
– Property, plant and equipment	**937**	2,015
	937	6,515

As at 30 June 2021, there is no capital commitments authorised but not contracted for (31 December 2020: 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 2021, the Group's maximum exposure to such guarantees was approximately RMB68,641,000 (31 December 2020: RMB91,570,000).

Pledge of Assets

As at 30 June 2021, property, plant and equipment of RMB41,466,000 (31 December 2020: RMB42,419,000), land use right of RMB4,638,000 (31 December 2020: RMB4,705,000) and bank deposits of RMB67,126,000 (31 December 2020: RMB49,011,000) were pledged for borrowings and bills payables of the Group.

Foreign Exchange Risk

The reporting currency of the Group was Renminbi. The Group was exposed to foreign exchange risk through sales and purchases which were denominated in a foreign currency including US dollars and Euros. The appreciation or depreciation of Renminbi against these foreign currencies would increase or decrease the price of the Group's products which were sold to overseas 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 2021.

Significant Investments and Material Acquisitions or Disposals

During the six months ended 30 June 2021, the Group did not have any significant investments or material acquisitions or disposals.

SUBSEQUENT EVENTS

With the floods in the Central China in July 2021, the domestic logistic arrangements have been affected which led to delay in the delivery of the Group's asphalt mixing plants to certain of its customers. The Group will continuously monitor the situation of the floods to minimise their impact on the financial position and performance of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group had approximately 385 employees (31 December 2020: 402). The total staff costs for the six months ended 31 June 2021 amounted to approximately RMB35,104,000 (six months ended 30 June 2020: RMB33,686,000).

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 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 2021 and 2020.

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 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 six months ended 30 June 2021.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the six months ended 30 June 2021, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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 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 2021 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 2021 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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.dgtechnology.com.

The 2021 interim report will also be published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.dgtechnology.com and will be despatched to the shareholders of the Company in due course.

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

Hong Kong, 27 August 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.

* *For identification purpose only*