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 2023

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 2023 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 2023

		Unaudited Six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**118,965**	193,779
Cost of sales		**(75,090)**	(136,896)
Gross profit		**43,875**	56,883
Other income and other gains, net	*6*	**2,385**	2,678
Distribution costs		**(32,414)**	(45,189)
Administrative expenses		**(31,054)**	(28,777)
Net reversal of impairment losses on trade receivables		**3,920**	4,948

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Unaudited	
		Six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Operating loss	*7*	**(13,288)**	(9,457)
Finance income, net		**6,246**	7,234
Share of profit of an associate		**901**	861
Loss before income tax		**(6,141)**	(1,362)
Income tax expense	*8*	**(767)**	(1,147)
Loss for the period attributable to owners of the Company		**(6,908)**	(2,509)
Loss per share attributable to owners of the Company during the period			
– Basic and diluted (RMB cents)	*9*	**(1.08)**	(0.39)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Loss for the period	**(6,908)**	(2,509)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**1,376**	2,975
Other comprehensive income for the period, net of tax	**1,376**	2,975
Total comprehensive (loss)/income attributable to owners of the Company for the period	**(5,532)**	466

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	Note	**Unaudited 30 June 2023** *RMB'000*	Audited 31 December 2022 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**108,087**	109,423
Intangible assets		**2,571**	2,892
Investment in an associate		**61,160**	60,259
Financial asset at fair value through profit or loss		**–**	19,040
Deferred tax assets		**13,412**	14,418
Total non-current assets		**185,230**	206,032
Current assets			
Inventories		**257,127**	223,885
Financial asset at fair value through profit or loss		**19,963**	–
Trade and bills receivables	*10*	**78,063**	124,827
Prepayments, deposits and other receivables		**74,639**	56,533
Income tax receivable		**–**	258
Pledged bank deposits		**50,014**	44,777
Cash and cash equivalents		**226,826**	199,942
Total current assets		**706,632**	650,222
Non-current asset classified as asset held for sale		**1,844**	1,844
Total assets		**893,706**	858,098

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2023

	Note	**Unaudited 30 June 2023** ***RMB'000***	Audited 31 December 2022 *RMB'000*
EQUITY			
Share capital	*13*	**5,059**	5,059
Other reserves		**566,671**	578,634
Retained earnings		**48,473**	42,042
Total equity		**620,203**	625,735
LIABILITIES			
Non-current liabilities			
Lease liabilities		**704**	1,085
Deferred tax liabilities		**4,500**	4,500
Total non-current liabilities		**5,204**	5,585
Current liabilities			
Borrowings	*11*	**7,902**	11,506
Trade and other payables	*12*	**147,551**	140,146
Contract liabilities	*12*	**111,595**	73,878
Lease liabilities		**1,251**	1,248
Total current liabilities		**268,299**	226,778
Total liabilities		**273,503**	232,363
Total equity and liabilities		**893,706**	858,098

NOTES

1 GENERAL INFORMATION

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

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

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

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2022, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The Group has adopted the following revised framework and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on 1 January 2023:

- Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2
- Definition of Accounting Estimates – Amendments to HKAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to HKAS 12
- International Tax Reform – Pillar Two Model Rules – Amendments to HKAS 12

3 ACCOUNTING POLICIES (CONTINUED)

(a) New and amended standards adopted by the Group (Continued)

- Insurance Contracts – HKFRS 17 & Amendments to HKFRS 17
- Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information – HKFRS 17

The adoption of the above revised framework and amendments to standards did not have any significant financial impact on this condensed consolidated interim financial information.

(b) New standards and interpretations not yet adopted

The following are amendments to standards and interpretations that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2023 or later periods, but have not been early adopted by the Group.

Standards	**Subject**
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (1)
HKAS 1 (Amendments)	Non-current Liabilities with Covenants (1)
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current (1)
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback (1)
HKAS 7 and HKFRS 17 (Amendments)	Supplier Finance Arrangement (1)
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture (2)

(1) Effective for the accounting period beginning on or after 1 January 2024

(2) Effective date to be determined

The Group is in the process of assessing potential impact of the above amendments to standards and interpretations that are relevant to the Group upon initial application. It is not yet in a position to state whether these amendments to standards and interpretations will have a significant impact on the Group's results of operations and financial position.

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 2022.

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, modified equipment and other asphalt specialty equipment.

Revenue consists of the followings:

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of asphalt mixing plants	**67,270**	175,204
Sales of spare parts and modified equipment	**32,990**	18,575
Sales of other asphalt specialty equipment	**18,705**	–
	118,965	193,779
Revenue from contracts with customers recognised		
– at a point in time	**118,965**	193,779

5 SEGMENT INFORMATION (CONTINUED)

(a) Revenue from external customers by country

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Mainland China	**67,797**	185,708
Outside Mainland China	**51,168**	8,071
	118,965	193,779

(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	Audited
	At	At
	30 June	31 December
	2023	2022
	RMB'000	*RMB'000*
Mainland China	**119,493**	141,066
Outside Mainland China	**52,325**	50,548
	171,818	191,614

(c) Information about major customer

During the six months ended 30 June 2023, revenue from customer A of the Group's outside the Mainland China segment amounting to approximately HK$25,686,000, which represented approximately 21.6% of the Group's consolidated revenue in continuing operations.

Other than disclosed above, no customer with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2023 and 2022.

6 OTHER INCOME AND OTHER GAINS, NET

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Other income		
Government grants *(Note)*	**1,760**	509
Others	**6**	16
	1,766	525
Other gains, net		
Fair value gain on a financial asset at fair value through profit or loss	**923**	892
Interest income from a financial asset at fair value through profit or loss	**566**	566
Net gain on disposal of non-current asset classified as asset held for sale	**–**	1,049
Exchange loss, net	**(943)**	(696)
Others	**73**	342
	619	2,153
	2,385	2,678

Note:

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

7 OPERATING LOSS

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

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Cost of inventories	**66,087**	118,680
Employee benefit expenses	**37,706**	30,712
Depreciation and amortisation		
– Property, plant and equipment	**4,376**	4,266
– Intangible assets	**417**	505
Net reversal of impairment losses on trade receivables	**(3,920)**	(4,948)
Provision for impairment of inventories	**415**	6,010

8 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**–**	683
– Over-provision in prior period	**(238)**	(621)
Deferred income tax	**1,005**	1,085
	767	1,147

No provision for Hong Kong profits tax was made for the current period (2022: Nil) as the Group had no assessable profits subject to Hong Kong profits tax for the period.

The Group's operations in the Mainland China are subject to PRC enterprise income tax at a statutory rate of 25% (2022: 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% (2022: 15%).

Under the PRC enterprise income tax law and its relevant regulations, a 100% (2022: 100%) additional tax deduction is allowed for qualified research and development expenses.

9 LOSS PER SHARE

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

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

	Unaudited Six months ended 30 June	
	2023	2022
Loss attributable to owners of the Company *(RMB'000)*	**(6,908)**	(2,509)
Weighted average number of ordinary shares in issue	**639,408,000**	639,408,000
Basis loss per share *(expressed in RMB cents per share)*	**(1.08)**	(0.39)

For the periods ended 30 June 2023 and 2022, diluted loss per share is the same as basic loss per share as there were no potential dilutive shares.

10 TRADE AND BILLS RECEIVABLES

	Unaudited At 30 June 2023 *RMB'000*	Audited At 31 December 2022 *RMB'000*
Trade receivables from third parties	**159,358**	215,135
Less: loss allowance	**(79,768)**	(83,688)
Less: discounting impact	**(5,251)**	(7,560)
	74,339	123,887
Bills receivables	**3,724**	940
Total trade and bill receivables	**78,063**	124,827

(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 as follows:

	Unaudited At 30 June 2023 *RMB'000*	Audited At 31 December 2022 *RMB'000*
Within 1 year	**74,788**	87,512
1 to 2 years	**32,980**	46,452
2 to 3 years	**10,226**	40,789
Over 3 years	**41,364**	40,382
	159,358	215,135

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

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
	2023	2022
	RMB'000	*RMB'000*
Within 1 year	**7,902**	11,506

As at 30 June 2023, borrowings of RMB7,902,000 (31 December 2022: RMB11,506,000) were secured by pledged bank deposits of RMB25,726,000 (31 December 2022: RMB24,239,000) and property, plant and equipment of RMB37,619,000 (31 December 2022: RMB36,045,000).

Movements of borrowings are analysed as follows:

	RMB'000
Unaudited:	
Balance at 1 January 2023	**11,506**
Repayments of borrowings	**(3,974)**
Exchange difference	**370**
Balance at 30 June 2023	**7,902**

	RMB'000
Unaudited:	
Balance at 1 January 2022	19,623
Repayments of borrowings	(8,587)
Exchange difference	516
Balance at 30 June 2022	11,552

12 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	Unaudited At 30 June 2023 *RMB'000*	Audited At 31 December 2022 *RMB'000*
Trade payables	**31,807**	34,851
Bills payables *(Note)*	**81,459**	68,780
	113,266	103,631
Amount due to a related party	**281**	281
Other payables and accruals	**34,004**	36,234
	34,285	36,515
Total trade and other payables	**147,551**	140,146
Contract liabilities	**111,595**	73,878
	259,146	214,024

Note:

The Group's bills payables of RMB80,687,000 (31 December 2022: RMB68,459,000) were secured by the Group's pledged bank deposits of approximately RMB24,288,000 (31 December 2022: RMB20,538,000), property, plant and equipment of RMB5,506,000 (31 December 2022: RMB5,949,000) and land use right of RMB4,377,000 (31 December 2022: RMB4,442,000).

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 2023 *RMB'000*	Audited At 31 December 2022 *RMB'000*
Within 3 months	**40,906**	40,009
After 3 months but within 6 months	**56,930**	53,235
After 6 months but within 1 year	**12,818**	8,147
Over 1 year	**2,612**	2,240
	113,266	103,631

13 SHARE CAPITAL, SHARE PREMIUM AND OTHER RESERVES

(a) Share capital

Authorised:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares *HK$*
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	2,000,000,000	20,000,000

Issued and fully paid:

	Number of shares *('000)*	*HK$'000*	*RMB'000*
At 30 June 2022, 1 January 2023 and 30 June 2023	639,408	6,395	5,059

(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.

(c) Capital reserve

Capital reserve comprises contributions by the controlling shareholder arising from transactions with owners in their capacity as the equity owners.

13 SHARE CAPITAL, SHARE PREMIUM AND OTHER RESERVES (CONTINUED)

(d) Statutory reserves

Statutory general reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the Mainland China. Appropriations to the reserves were approved by the respective companies' boards of directors.

For the entities concerned, statutory general reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

Specific reserve for maintenance and production funds

Pursuant to the relevant PRC regulations, the Mainland China companies comprising the Group are required to transfer maintenance and production funds at fixed rates based on production volume to a specific reserve accounts. The production and maintenance funds could be utilised when expenses or capital expenditures on maintenance, production and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve account to retained earnings.

14 DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2023 and 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

General Review

In the first half of 2023, D&G Technology Holding Company Limited (the "Company") and its subsidiaries (collectively the "Group") continued to be a leading market player in the road construction and maintenance machinery industry in the People's Republic of China ("PRC", "China" or "Mainland China") and overseas markets. It provided smart road construction and conservation solution for different clients by offering a full range of asphalt mixing plants from small to large-scale, recycled asphalt pavement ("RAP") crushing equipment and sand manufacturing machine, as well as modification services of adding recycling and environmental protection functions, such as bitumen foaming device for warm mix asphalt to existing plants.

The asphalt mixing plants, being the core products are 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. In addition, RAP crushing equipment and sand manufacturing machine are newly developed products, which combined with our existing advanced asphalt mixture technology to be a comprehensive solution for our customers.

During the six months ended 30 June 2023, business environment was more challenging than the same period in 2022. Following the full lifting of epidemic prevention measures in the PRC, local governments have been focused on restoring economic and livelihood activities, resulting in cautious projects investments. In addition, intense competition within the industry has created obstacles for our Group in securing additional orders. Against this backdrop, overall revenue declined year-on-year.

Despite the challenging conditions, the Group did not halt its progress and continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. The Group also seized opportunities to actively improve its products, expand its customer base, and enhance operational efficiency, thereby expanding its competitive advantages. During the period, clients have shown interest in adopting the one-stop road construction and conservation solution with the new products. Gross profit margin increased to 36.9% (six months ended 30 June 2022: 29.4%). The Group also further expanded the orders from overseas customers, in particular Europe with strengthening sales efforts. In overall, thirteen (six months ended 30 June 2022: seventeen) sales contracts of asphalt mixing plants were completed during the period and the asphalt mixing plants were used in major highway construction and maintenance projects such as Hefei-Zhoukou Expressway (合周高速), Luanchuan-Lushi Expressway (欒盧高速公路) and Liwen Expressway (梨溫高速公路), etc.

Internally, the Group took steps to improve its operational efficiency, which included adjusting service pricing to remain competitive, reducing operating expenses and costs, and optimizing personnel deployment. These actions resulted in an overall improvement in the Group's operational efficiency. Due to the decreasing number of construction and maintenance projects and the postponement of customers' project delivery schedules, the Group has developed several policies to closely keep track of the inventory level and expects it to be improved continuously.

The Group has been closely monitoring the collection of trade receivables to enhance the cash cycle. During the period, the Group kept making efforts in its receivable collection and tightening the credit control on its customers. The overall settlement from customers has been gradually improved. The Group shall strictly comply with its credit policy and continuously improve its internal control procedures, thus enhancing the receivable collection cycle and shortening the debtors' turnover days.

The Group has also been working with several strategic partners with extensive overseas network to extend the business footprint. For instance, the Group has been leveraging on LiuGong Wuxi Road Equipment Co., Ltd.* ("LiuGong Road Equipment Road Equipment") well-established distribution network and strong financial services capabilities to expand the sales to domestic and overseas markets.

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 2023, fifty-four (31 December 2022: forty) patents of combustion technology were registered, two patents were pending registration.

* *For identification purpose only*

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

On 10 August 2020, the Group's wholly owned subsidiary, Langfang D&G Machinery Technology Company Limited* ("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 principal amount of the Convertible Bond is in a total amount of RMB20 million. The Convertible Bond is interest bearing at 6% per annum and the maturity date is 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. During the six months ended 30 June 2023, two asphalt mixing plants sales contracts have been completed (six months ended 30 June 2022: Two).

Pursuant to the convertible bond agreement, at 30 April 2024, 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 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 Road Equipment'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 2023, the Group had two hundred and eight registered patents in the PRC (of which four were invention patents and four appearance patents) and twenty-seven software copyrights. In addition, the registration of twenty-three patents were pending approval as at 30 June 2023.

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 DG customers technical training in Ningbo, Xi'an Luchangtong Deji Machinery Technology Exchange Conference, Asphalt Pavement Construction Equipment New Product Technology Exchange Meeting in Zhejiang, the Bauma CTT Russia 2023 held in Russia, the World Environment Day and the Green Day 2023.

In March 2023, the Group was awarded the "5 Years Plus Caring Company" which was organised by the Hong Kong Council of Social Service. In August 2023, the Group was awarded as an "EcoChallenger" and "5 Years+ EcoPioneer" in the BOCHK Corporate Environmental Leadership Awards which was organised by the Federation of Hong Kong Industries and Bank of China (Hong Kong). The awards are recognition of the Group's contribution to the promotion of environmental protection.

Outlook

Looking forward, the PRC and overseas economies are facing significant challenges with the sharp rise in global inflation, ongoing Russia-Ukraine War, and Sino-US competition. The operating environment will be increasingly difficult. Nevertheless, the Group remains optimistic yet cautious about the market development since the Chinese government has planned billions of dollars on infrastructure to boost its economic growth.

In 2023, the central government reiterated its goal of “accelerating the construction of a strong transportation country,” stating that the national fixed investment in transportation exceeded RMB 3.8 trillion in 2022, an increase of over 6% year-on-year. By 2035, the national road network is planned to reach a scale of 461,000 kilometers, providing support for the development of urban clusters and metropolitan areas.

According to the “National 14th Five-Year Plan”, 11 major transportation projects are still ongoing, including promoting the expansion and reconstruction of the main line of the Beijing-Shanghai, Beijing-Hong Kong-Macao, Changchun-Shenzhen, and other national highways with earlier construction years, large traffic volume, heavy traffic congestion.

National road construction will continue to play a crucial role in driving effective investment and providing strong support for stabilizing the economy. The Group will further maintain the long-term relationship with existing customers to seize the coming valuable marketing opportunities raised by the national economic plans.

Besides, the Group will explore new emerging markets with strategic partners including state-owned enterprises which can also promote business performance in the future. The Group is working with LiuGong Road Equipment to explore the mid-end asphalt mixing equipment market and secure more orders, with the aim to expand its revenue stream. Moreover, The Group is also studying, manufacturing, promoting, and distributing high-performance ultra-low NOx burners with Tsinghua University. In the future, the Group will strive to diversify our business segment as well as expand our brand customers with several strategic partnerships.

Furthermore, the Group will maintain strict cost-control measures and streamline operations to ensure efficient and steady business development. The Group will capitalise on local and overseas market opportunities and conduct regular internal assessments to maximize profitability.

FINANCIAL REVIEW

During the six months ended 30 June 2023, the Group recorded a total revenue of RMB118,965,000 (2022: RMB193,779,000), representing a decrease of approximately 38.6% as compared to the last corresponding period. Gross profit decreased from RMB56,883,000 for the six months ended 30 June 2022 to RMB43,875,000 for the six months ended 30 June 2023, representing a decrease of approximately 22.9%. Gross profit margin increased by 7.5 percentage points from 29.4% to 36.9%. The Group recorded a net loss attributable to owners of the Company of RMB6,908,000 compared with a net loss of RMB2,509,000 in the last corresponding period.

	Six months ended 30 June		
	2023	2022	Change
	RMB'000	*RMB'000*	
Sales of asphalt mixing plants	**67,270**	175,204	-61.6%
Sales of spare parts and modified equipment	**32,990**	18,575	77.6%
Sales of other asphalt specialty equipment	**18,705**	–	N/A
	118,965	193,779	-38.6%

Sales of Asphalt Mixing Plants

	Six months ended 30 June		
	2023	2022	Change
	RMB'000	*RMB'000*	
Revenue	**67,270**	175,204	-61.6%
Gross profit *(Note)*	**20,797**	55,572	-62.6%
Gross profit margin	**30.9%**	31.7%	-0.8pp
Number of contracts	**13**	17	-4
Average contract value	**5,175**	10,306	-49.8%

Revenue from the sales of asphalt mixing plants decreased as a result of the decrease in number of contracts completed and the decrease in the average contract value. The decrease in number of contracts was mainly due to that following the full lifting of epidemic prevention measures in PRC, local governments have been focused on restoring economic and livelihood activities, resulting in cautious projects investments. In addition, intense competition within the industry has created obstacles for our Group in securing additional orders. The decrease in average contract value was due to more small scale plants were sold in the current period. The decrease in the gross profit margin was primarily due to the proportional decrease in the number of sales with higher capacity (usually with higher gross profit margin).

Note: Impairment of inventories of RMB415,000 was made during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB6,010,000) 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		
	2023	2022	Change
	RMB'000	*RMB'000*	
Recycling Plant			
Revenue	**18,681**	90,656	-79.4%
Gross profit	**4,202**	27,637	-84.8%
Gross profit margin	**22.5%**	30.5%	-8.0pp
Number of contracts	**2**	7	-5
Average contract value	**9,341**	12,951	-27.9%
Conventional Plant			
Revenue	**48,589**	84,548	-42.5%
Gross profit	**16,595**	27,935	-40.6%
Gross profit margin	**34.2%**	33.0%	1.2pp
Number of contracts	**11**	10	1
Average contract value	**4,417**	8,455	-47.8%

Revenue from the sales of Recycling Plants decreased by 79.4% which was mainly due to the decrease in the number of contracts completed and the decrease in the average contract value. The gross profit margin decreased by 8.0 percentage points to 22.5% was mainly due to the increase in market competition during the period.

Revenue from the sales of Conventional Plants decreased by 42.5% primarily because of the decrease in the average contract value. Most of the conventional plant sold during the period are relatively small model. The gross profit margin increased by 1.2 percentage points to 34.2% was mainly due to proportional increase in the number of overseas sales which generally had higher gross profit margin as compared to the last corresponding period.

By Geographical Location

	Six months ended 30 June		
	2023	2022	Change
	RMB'000	*RMB'000*	
The PRC			
Turnover	**28,477**	169,045	-83.2%
Gross profit	**8,197**	53,592	-84.7%
Gross profit margin	**28.8%**	31.7%	-2.9pp
Number of contracts	**3**	16	-13
Average contract value	**9,492**	10,565	-10.2%
Overseas			
Turnover	**38,793**	6,159	529.9%
Gross profit	**12,600**	1,980	536.4%
Gross profit margin	**32.5%**	32.1%	0.4pp
Number of contracts	**10**	1	9
Average contract value	**3,879**	6,159	-37.0%

Revenue from the PRC sales decreased primarily because of the decrease in the number of contracts completed and the decrease in the average contract value. The gross profit margin decreased by 2.9 percentage points to 28.8% was mainly due to the decrease in the number of sales with higher capacity sold during the period.

Revenue from the overseas sales increased mainly because of the increase in the number of contracts completed and partially offset by decrease in the average contract value. The increase in overseas revenue was a result of our dedicated efforts to expand into the overseas market. The gross profit margin increased by 0.4 percentage points to 32.5% and relatively stable because most asphalt mixing plants sold were all PM model series which were similar in the last corresponding period.

Sales of Spare Parts and Components and Modified Equipment

	Six months ended 30 June		
	2023	2022	Change
	RMB'000	*RMB'000*	
Revenue	**32,990**	18,575	77.6%
Gross profit	**18,864**	7,321	157.7%
Gross profit margin	**57.2%**	39.4%	17.8pp

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

During the period, the revenue from sales of spare parts and components amounted to RMB17,136,000 (six months ended 30 June 2022: RMB10,033,000) and the revenue from sales of modified equipment amounted to RMB15,854,000 (six months ended 30 June 2022: RMB8,542,000). The increase in revenue was mainly due to the increase in the number of customers demand for modification of Conventional Plants. The gross profit margin increased by 17.8 percentage points during the period was mainly due to the improvement in gross profit margin of sales of modified equipment and more relatively high gross profit margin overseas sales were made.

Sales of other Asphalt Specialty Equipment

	Six months ended 30 June		
	2023	2022	Change
	RMB'000	*RMB'000*	
Revenue	**18,705**	–	N/A
Gross profit	**4,629**	–	N/A
Gross profit margin	**24.7%**	–	N/A
Number of contracts	**5**	–	N/A
Average contract value	**3,741**	–	N/A

The Group published several new series of brand of asphalt specialty equipment since 2021 which included the LiuGong Asphalt Plant ("LAP") series asphalt mixing plants, the RAP crushing equipment and the sand manufacturing machine.

The Group has become the exclusive supplier of the LAP series asphalt mixing plants since May 2021. This strategic partnership will further penetrate the mid-end asphalt mixing plant market to win more orders and expand its revenue stream. There were two sales contracts completed during the period. We continue to explore more business opportunities with the sales channel with LiuGong in our coming future.

The Group considered the sales of RAP crushing equipment and the sand manufacturing machine as the new source of revenue for domestic and overseas asphalt mixing plants markets and to its customers as value-added services as well as provided solutions to meet the diversified needs of the customers. Two RAP crushing equipment and one sand manufacturing machine were sold during the period. As both equipment were new to the market, we expect to give proactive and determined effort to offer this comprehensive asphalt solution to the customers.

Other Income and Other Gains, Net

During the period, other income and other gains, net, mainly represented government grants, fair value gain on a financial asset at fair value through profit or loss, net off with the net exchange loss. The decrease was mainly due to the increase in net foreign exchange loss to RMB0.9 million (2022: exchange gain of RMB0.7 million) and the absence of net gain on disposal of non-current assets classified as asset held for sale (2022: RMB1.0 million).

Distribution Costs

Distribution costs mainly consisted of staff costs of our sales and marketing staff, distribution fees to our distributors, freight and transportation expenses, and marketing expenses. Decrease in distribution costs was mainly due to the decrease in sales of asphalt mixing plants through distributors and the decrease in marketing expenses, which account for a significant portion of expenses in the promotion of new products in comparative 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 RMB2.3 million mainly due to the increase in employee compensation resulting from the organizational restructuring.

Net Reversal of Impairment Losses on Trade Receivables

The amount represented the net reversal of impairment losses on trade receivables of RMB3,920,000 (2022: RMB4,948,000). The reversal of provision for impairment loss was mainly due to the settlement of long overdue trade receivables during the period.

Share of Profit of an Associate

The amount represented the share of the profit of Topp Financial Leasing (Shanghai) Co., Ltd.* ("Shanghai Topp") of RMB901,000 (2022: RMB861,000).

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 slightly increase in finance income, net, 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 2023 was mainly attributable to the deferred tax expense arisen from the reversal of impairment losses of trade receivables offset by the reversal of income tax expenses incurred by a Pakistan subsidiary.

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company amounted to approximately RMB6,908,000 for the six months ended 30 June 2023 compared to approximately RMB2,509,000 in the last corresponding period. The increase in loss for the period was mainly due to the decrease in revenue and gross profit offset by the decrease in distribution costs as discussed above.

* *For identification purpose only*

Working Capital Management

Net current assets of the Group amounted to RMB438,333,000 (31 December 2022: RMB423,444,000) with a current ratio of 2.6 times (31 December 2022: 2.9 times) as at 30 June 2023.

Inventories increased by RMB33,242,000 from RMB223,885,000 as at 31 December 2022 to RMB257,127,000 as at 30 June 2023. Inventory turnover days was 580 days for the six months ended 30 June 2023, representing an increase of 244 days as compared to 336 days for the year ended 31 December 2022. 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 decreased by RMB46,764,000 from RMB124,827,000 as at 31 December 2022 to RMB78,063,000 as at 30 June 2023. Trade and bills receivables turnover days was 154 days for the six months ended 30 June 2023, representing a decrease of 16 days as compared to 170 days for the year ended 31 December 2022. The decrease in trade and bills receivables turnover days during the period was primarily due to the settlement from some of the PRC customers offset by the decrease in number of sales contracts completed. The Group will continue to cautiously monitor the trade receivables collection process so as to improve the collection cycle.

Trade and bills payables increased by RMB9,635,000 from RMB103,631,000 as at 31 December 2022 to RMB113,266,000 as at 30 June 2023. Trade and bills payables turnover days was 206 days for the six months ended 30 June 2023, representing an increase of 27 days as compared to 179 days for the year ended 31 December 2022. The increase in trade and bills payables and turnover days was mainly because of extended payments to suppliers and sub-contractors and the decreased sales orders and hence the cost of goods sold.

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 2023, the Group had cash and cash equivalents of RMB226,826,000 (31 December 2022: RMB199,942,000) and pledged bank deposits of RMB50,014,000 (31 December 2022: RMB44,777,000). In addition, the Group had interest-bearing bank borrowings of RMB7,902,000 (31 December 2022: RMB11,506,000). The Group's cash and cash equivalents, pledged bank deposits and borrowings were mostly denominated in Renminbi, Hong Kong dollars and United States 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 1.3% (31 December 2022: 1.8%).

During the six months ended 30 June 2023, the Group recorded cash generated from operating activities of RMB29,568,000 (six months ended 30 June 2022: cash used in operating activities of RMB3,223,000). Net cash generated from investing activities amounted to RMB2,820,000 (six months ended 30 June 2022: RMB1,936,000) for the six months ended 30 June 2023. Net cash used in financing activities for the six months ended 30 June 2023 amounted to RMB6,565,000 (six months ended 30 June 2022: RMB17,181,000).

Capital Commitments and Contingent Liabilities

Capital commitments as at 30 June 2023 and 31 December 2022 not provided for in the consolidated financial statements were follows:

	At 30 June 2023	At 31 December 2022
	RMB'000	*RMB'000*
Contracted for		
– Property, plant and equipment	**658**	382

As at 30 June 2023, there is no capital commitments authorised but not contracted for (31 December 2022: 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 Shanghai Topp. Under the leasing arrangements, Langfang D&G provided guarantee to Shanghai Topp that in the event of customer default, 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 2023, the Group's maximum exposure to such guarantees was approximately RMB115,844,000 (31 December 2022: RMB109,530,000).

Pledge of Assets

As at 30 June 2023, property, plant and equipment of RMB43,125,000 (31 December 2022: RMB41,994,000), land use right of RMB4,377,000 (31 December 2022: RMB4,442,000) and bank deposits of RMB50,014,000 (31 December 2022: RMB44,777,000) 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 2023.

Significant Investments and Material Acquisitions or Disposals

During the six months ended 30 June 2023, the Group did not have any significant investments or material acquisitions or disposals (six months ended 30 June 2022: same).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2023, the Group had approximately 344 employees (31 December 2022: 384). The total staff costs for the six months ended 30 June 2023 amounted to approximately RMB37,706,000 (six months ended 30 June 2022: RMB30,712,000).

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 2023 and 2022.

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2023 (six months ended 30 June 2022: same).

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 2023 (six months ended 30 June 2022: same).

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the six months ended 30 June 2023, the Company has, in the opinion of the Directors, complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

REVIEW OF INTERIM RESULTS

The Company has an audit committee (the "Audit Committee") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control systems. The Audit Committee comprises four members, namely Mr. O'Yang Wiley (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson. All of them are independent non-executive Directors. The interim results of the Group for the six months ended 30 June 2023 have been reviewed by the Audit Committee.

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 2023 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, 25 August 2023

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.