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D&G Technology Holding Company Limited

德基科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1301)

ANNOUNCEMENT

CHANGE IN USE OF PROCEEDS

Reference is made to the prospectus dated 14 May 2015 (the “Prospectus”) relating to the public offering and listing of the shares of D&G Technology Holding Company Limited (the “Company”) on the main board of The Stock Exchange of Hong Kong Limited on 27 May 2015 (the “Global Offering”). The board of directors (the “Board”) would like to announce that the Company has decided to change the allocation of the use of proceeds from the Global Offering in the manner set out in this announcement. Unless otherwise defined herein, terms in this announcement shall have the same meaning as defined in the Prospectus.

USE OF PROCEEDS

The net proceeds from the Global Offering, after taking into account the partial exercise of the Over-allotment Option and after deducting the underwriting fees, commissions and other expenses in relation thereto, was approximately HK\$334.4 million (equivalent to approximately RMB263.9 million). It was disclosed in the section headed “Future Plans and Use of Proceeds” of the Prospectus that the Company intended to use the net proceeds received from the Global Offering for the following purposes:

- approximately 50% of the net proceeds would be used to finance the expansion of the Group’s manufacturing facilities to increase the Group’s production capacity, of which:

- approximately 15% of the net proceeds would be used for the acquisition of land;
- approximately 25% of the net proceeds would be used to finance the development and construction of the manufacturing facilities; and
- approximately 10% of the net proceeds would be used for the purchase of equipment for the manufacturing facilities;
- approximately 20% of the net proceeds would be used to fund the Group's research and development activities, including the upgrades on computer software and hardware and investment in research and development projects;
- approximately 10% of the net proceeds would be used to finance the development of the Group's new businesses, including the manufacture of components of asphalt mixing plants and asphalt mixtures for sale;
- approximately 10% of the net proceeds would be used to fund (i) the expansion of the Group's sales and distribution networks, including increasing the head counts of the Group's sales personnel and setting up overseas service centres; and (ii) the Group's promotional activities; and
- approximately 10% of the net proceeds would be used for working capital and other general corporate purposes.

CHANGES IN USE OF PROCEEDS

The Board resolved on 1 March 2017 to change the proposed use of the net proceeds. Set out below are details of the original allocation of the net proceeds, the revised allocation of the net proceeds and the utilisation of the net proceeds as at the date of this announcement:

	Original allocation	Revised allocation	Utilised amount	Unutilised amount
	<i>RMB'</i> <i>million</i>	<i>RMB'</i> <i>million</i>	<i>RMB'</i> <i>million</i>	<i>RMB'</i> <i>million</i>
Expansion of manufacturing facilities				
Acquisition of land	39.6	–	–	–
Development and construction of the manufacturing facilities	65.9	31.5	21.5	10.0
Purchase equipment for the manufacturing facilities	26.4	7.2	2.2	5.0
Research and development	52.8	52.8	24.3	28.5
Development of new business	26.4	72.0	21.1	50.9
Expansion of the sales and distribution networks and promotional activities	26.4	26.4	13.3	13.1
Working capital and general corporate purposes	26.4	74.0	26.4	47.6
	<u>263.9</u>	<u>263.9</u>	<u>108.8</u>	<u>155.1</u>

REASONS FOR THE CHANGES

The Company originally planned to use 50% of the net proceeds for expansion of manufacturing facilities and had utilised approximately RMB21.5 million for the development and construction of the manufacturing facilities and approximately RMB2.2 million for the purchase of equipment for the manufacturing facilities as of the date of this announcement. With the benefit of enhancement in supply chain management and network of capable outsourcing partners, the Board is of the view that the expansion of manufacturing facilities can be scaled down and expects that only an additional amount of approximately RMB15.0 million would be required to complete the Group's expansion of manufacturing facilities in 2017. The Board considers that the Group's manufacturing facilities with the scaled-down expansion should be sufficient to cope with the market demand in the near future.

In light of the fact that funding for infrastructure projects in China has been improving in the past few months, the Board expects market demand for our products to increase. On the other hand, it requires time for the projects' funding to be eventually in place and the Board expects the collection of outstanding trade receivables from the customers of the Company to remain slow in 2017. Hence, the Board is of the view that the Group requires additional working capital for its operations in light of the increasing market demand.

In the meantime, the Group strikes to explore potential opportunities to diversify its business and broaden its income source. In 2016, the Group established two wholly owned subsidiaries in China engaging in (i) the manufacturing and sale of asphalt mixtures; and (ii) finance leasing respectively. These two subsidiaries commenced operations in December 2016. In addition, the Group is developing the business of the manufacturing and sale of burner combustion components (which can be used for asphalt mixing plants and other purposes) and the provision of related technical support services. The Board considers that the increase in allocation of the net proceeds to the development of the above new businesses would enable the Group to better utilise its resources and facilitate the development of the Group in the long run.

Based on the situation as stated above, the Board has decided to change the original proposed use of the net proceeds and reallocate the unutilised net proceeds as described above.

The Board (including the independent non-executive Directors) considers that the above changes in the use of proceeds from the Global Offering will facilitate efficient use of the financial resources of the Company and strengthen the future development of the Company and is in the interests of the Company and its Shareholders as a whole.

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

Hong Kong, 1 March 2017

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, Mr. Lao Kam Chi and Mr. Yu Ronghua; 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. Law Wang Chak, Waltery, Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson.