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D&G Technology Holding Company Limited

德基科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1301)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the "Board" or the "Directors") of D&G Technology Holding Company Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 together with the comparative figures for the previous year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	**2016** *RMB'000*	2015 *RMB'000*
Revenue	*4*	**321,449**	390,027
Cost of sales		**(194,515)**	(224,619)
Gross profit		**126,934**	165,408
Other income and other (losses)/gains, net	*5*	**(4,023)**	718
Distribution costs		**(43,905)**	(38,695)
Administrative expenses		**(105,335)**	(84,137)
Operating (loss)/profit		**(26,329)**	43,294
Finance income/(costs), net	*6(a)*	**378**	(931)
(Loss)/profit before income tax	*6*	**(25,951)**	42,363
Income tax expense	*7*	**(2,548)**	(11,575)
(Loss)/profit attributable to owners of the Company for the year		**(28,499)**	30,788
(Loss)/earnings per share attributable to owners of the Company during the year	*9*		
– basic and diluted *(RMB cents)*		**(4.60)**	5.91

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(28,499)**	30,788
Other comprehensive income:		
Item that may be reclassified to profit or loss:		
Currency translation differences	**14,797**	13,549
Other comprehensive income for the year, net of tax	**14,797**	13,549
Total comprehensive (loss)/income attributable to owners of the Company for the year	**(13,702)**	44,337

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**134,047**	85,274
Land use right		**5,226**	5,357
Investment property		**12,266**	–
Intangible assets		**3,890**	777
Prepayments and other receivables		**4,121**	1,605
Deferred income tax assets		**16,324**	10,860
Total non-current assets		**175,874**	103,873
Current assets			
Inventories	*10*	**168,763**	131,757
Trade and bills receivable	*11*	**384,224**	388,097
Prepayments, deposits and other receivables		**30,070**	19,458
Pledged bank deposits		**89,031**	60,370
Bank deposits with initial terms of over three months		**–**	102,069
Cash and cash equivalents		**169,261**	168,881
Total current assets		**841,349**	870,632
Total assets		**1,017,223**	974,505

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital	*14*	**4,897**	4,888
Other reserves		**569,283**	563,667
Retained earnings		**161,749**	193,711
Total equity		**735,929**	762,266
LIABILITIES			
Current liabilities			
Borrowings	*12*	**63,271**	103,381
Trade and other payables	*13*	**214,831**	104,653
Income tax payable		**3,192**	4,205
Total liabilities		**281,294**	212,239
Total equity and liabilities		**1,017,223**	974,505

NOTES:

1. GENERAL INFORMATION

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 Group is principally engaged in manufacturing, distribution, research and development of asphalt mixing machinery.

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 "Listing Date").

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

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property, which is carried at fair value.

The principal accounting policies applied in the preparation of the consolidated financial statements have been consistently applied to all the years presented, unless otherwise stated.

Certain comparative figures have been represented to conform to the current year's presentation.

3. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

(a) New and amended standards adopted by the Group

The following amendments to standards are mandatory for the Group's financial year beginning on 1 January 2016. The adoption of these amendments has not had any significant impact to the results and financial position of the Group.

HKAS 1 Amendment	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 Amendment	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 Amendment	Investment Entities: Applying the Consolidation Exception
HKFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Annual Improvements Project	Annual Improvements 2012-2014 Cycle

(b) New standards and interpretation not yet adopted

The following standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning on 1 January 2016 and have not been early adopted by the Group:

		Effective for the accounting period beginning on or after
HKAS 7 Amendment	Disclosure Initiative	1 January 2017
HKAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	to be determined
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019

4. REVENUE AND 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 that make strategic decisions.

The executive directors of the Company have determined that the Group only has one operating segment which is the sales and operating lease of asphalt mixing machinery and other relevant spare parts and provision of equipment modification services and asphalt mixture.

The amount of each category of revenue is as follows:

	2016	2015
	RMB'000	*RMB'000*
Sales of asphalt mixing plants	**246,193**	321,436
Sales of spare parts and provision of equipment modification services	**23,625**	26,286
Operating lease income of asphalt mixing plants	**45,766**	42,305
Sales of asphalt mixture	**5,865**	–
	321,449	390,027

(a) Revenue from external customers by country

	2016	2015
	RMB'000	*RMB'000*
Mainland China	**296,755**	352,524
Outside Mainland China	**24,694**	37,503
	321,449	390,027

(b) Non-current assets

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

	2016	2015
	RMB'000	*RMB'000*
Mainland China	**106,385**	92,199
Outside Mainland China	**51,509**	814
	157,894	93,013

(c) Information about major customers

The Group's customer base is diversified and none of the customers individually accounted for more than 10% of the Group's revenue for each of the years presented.

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

	2016 *RMB'000*	2015 *RMB'000*
Other income		
Rental income	**160**	–
Government grants	**3,019**	2,295
	3,179	2,295
Other (losses)/gains		
Net loss on disposal of property, plant and equipment	**(606)**	(54)
Fair value loss on revaluation of investment property	**(704)**	–
Net foreign exchange loss	**(6,206)**	(1,830)
Others	**314**	307
	(7,202)	(1,577)
	(4,023)	718

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived after charging/(crediting):

(a) Finance (income)/costs, net

	2016 *RMB'000*	2015 *RMB'000*
Interest on loans and borrowings	**2,661**	2,397
Interest income on bank deposits	**(2,180)**	(1,693)
Finance income in respect of discounting trade receivables	**(824)**	–
Others	**(35)**	227
	(378)	931

(b) Employee benefit expenses

	2016	2015
	RMB'000	*RMB'000*
Wages, salaries and allowances	**49,609**	41,861
Pension costs – defined contribution plans	**10,272**	9,654
Share-based payment expense	**3,921**	–
	63,802	51,515

(c) Other items

	2016	2015
	RMB'000	*RMB'000*
Depreciation		
– Assets held for leasing out under operating leases	**8,943**	5,984
– Other assets	**4,878**	4,620
Amortisation		
– Land use right	**131**	131
– Intangible assets	**238**	218
Provision for impairment of trade receivables, net	**34,622**	16,544
Provision for impairment of other receivable	**3,693**	–
Operating lease charges	**3,787**	2,079
Auditor's remuneration	**1,560**	4,421
Research and development costs	**14,382**	8,678
Cost of inventories	**162,448**	212,798

7. INCOME TAX EXPENSE

	2016	2015
	RMB'000	*RMB'000*
Current income tax:		
– PRC enterprise income tax	**8,026**	15,055
– Over-provision in prior years	**(14)**	(580)
	8,012	14,475
Deferred income tax	**(5,464)**	(2,900)
	2,548	11,575

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

No provision for Hong Kong profits tax was made for the subsidiaries incorporated in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong profits tax during the year (2015: Nil).

No provision for Singapore income tax was made for the subsidiary incorporated in Singapore as the subsidiary did not have assessable profits subject to Singapore income tax during the year (2015: Nil).

The Group's PRC subsidiaries are subject to the PRC enterprise income tax rate of 25% (2015: 25%).

(ii) According to the PRC enterprise income tax law and its relevant regulations, a wholly-owned subsidiary of the Group, Langfang D&G Machinery Technology Company Limited ("Langfang D&G"), is qualified as a high-technology enterprise under the tax law and entitled to a preferential income tax rate of 15% (2015: 15%).

(iii) Under the PRC enterprise income tax law and its relevant regulations, a 50% additional tax deduction is allowed for qualified research and development expenses.

8. DIVIDENDS

Dividends to shareholders of the Company are as follows:

	2016	2015
	RMB'000	*RMB'000*
Final dividend proposed after the end of reporting period of HK1.8 cents (equivalent to RMB1.6 cents) (2015: HK1.8 cents (equivalent to RMB1.5 cents)) per ordinary share	**9,995**	9,356
Special final dividend proposed after the end of reporting period of Nil (2015: HK1.5 cents (equivalent to RMB1.3 cents)) per ordinary share	**–**	7,797
	9,995	17,153

The final dividend proposed after 31 December 2016 and the final dividend and special final dividend proposed after 31 December 2015 were not recognised as a liability at 31 December 2016 and 2015 respectively.

9. (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	2016	2015
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(28,499)**	30,788
Weighted average number of ordinary shares in issue *(Note)*	**619,381,863**	521,382,997
Basic (loss)/earnings per share *(expressed in RMB cents per share)*	**(4.60)**	5.91

Note:

	2016	2015
	No. of shares	*No. of shares*
Shares issued at the beginning of the year	**619,258,000**	8,400
Effect of capitalisation issue on the Listing Date	**–**	377,991,600
Effect of capitalisation of shareholder's loans on the Listing Date	**–**	43,200,000
Effect of shares issued by public offering on the Listing Date	**–**	90,000,000
Effect of shares issued by over-allotment on 22 June 2015	**–**	10,182,997
Effect of shares issued in respect of share options exercised during the year	**123,863**	–
Weighted average number of ordinary shares for basic earnings per share	**619,381,863**	521,382,997

(b) Diluted

Diluted earnings per share for the year ended 31 December 2016 is the same as the basic earnings per share as potential ordinary shares arising from share options were not treated as dilutive as the conversion to ordinary shares would not increase the loss per share from continuing operations.

Diluted earnings per share for the year ended 31 December 2015 is the same as the basic earnings per share as there were no dilutive potential ordinary shares.

10. INVENTORIES

	2016	2015
	RMB'000	*RMB'000*
Raw materials	**73,660**	61,734
Work in progress	**89,333**	60,603
Finished goods	**5,770**	9,420
	168,763	131,757

The cost of inventories recognised as expense and included in 'cost of sales' amounted to approximately RMB162,448,000 (2015: RMB212,798,000).

The inventory as at 31 December 2016 and 2015 were stated at cost.

No inventory provision was made as at 31 December 2016 and 2015.

11. TRADE AND BILLS RECEIVABLE

	2016	2015
	RMB'000	*RMB'000*
Trade receivables from third parties *(Notes (a) and (b))*	**454,277**	423,471
Less: provision for impairment	**(71,053)**	(36,431)
	383,224	387,040
Bills receivable	**1,000**	1,057
Total trade and bills receivable	**384,224**	388,097

(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 most of the customers.

(b) Ageing analysis based on billing date of trade receivables (net of provision for impairment) is as follows:

	2016	2015
	RMB'000	*RMB'000*
Less than 3 months	**64,606**	84,205
3 to 6 months	**59,379**	51,247
6 to 12 months	**80,759**	127,702
1 to 2 years	**137,899**	112,671
Over 2 years	**40,581**	11,215
	383,224	387,040

(c) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired, together with the amount of trade receivables with provision of impairment losses made, are as follows:

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**89,686**	165,392
Less than 3 months past due	**39,534**	47,799
3 to 12 months past due	**101,692**	51,372
Over 12 months past due	**22,047**	9,920
Total amount past due but not impaired	**163,273**	109,091
Total amount of trade receivables with provision for impairment losses made	**130,265**	112,557
	383,224	387,040

Receivables that were past due but not impaired relate to a number of independent customers that have a good payment track records with the Group and did not encounter financial difficulty or fail to fulfill their original or amended repayment plan. Based on past experience with these customers and evaluation of their current creditability, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

12. BORROWINGS

Borrowings repayable within one year or beyond one year but on demand can be analysed as follows:

	2016	2015
	RMB'000	*RMB'000*
Secured bank loans	**43,271**	97,015
Bank loans guaranteed by the Company	**20,000**	6,366
	63,271	103,381

13. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade and bills payable	**158,247**	68,190
Amounts due to related parties	**584**	142
Other payables and accruals	**56,000**	36,321
	214,831	104,653

At 31 December 2016, the ageing analysis of trade and bills payable based on invoice date is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**58,890**	52,197
After 3 months but within 6 months	**51,518**	14,637
After 6 months but within 1 year	**47,839**	1,356
	158,247	68,190

14. SHARE CAPITAL

Authorised:

	Number of ordinary shares of HK$0.01 each	**Nominal value of ordinary shares**
		HK$
At 1 January 2015	1,000,000	10,000
Increase in authorised share capital	1,999,000,000	19,990,000
At 31 December 2015 and 2016	**2,000,000,000**	**20,000,000**

Issued and fully paid:

	Number of shares *('000)*	*HK$'000*	*RMB'000*
At 1 January 2015	8	–	–
Capitalisation issue *(Note (i))*	377,992	3,780	2,984
Capitalisation of shareholder's loans *(Note (i))*	72,000	720	568
Public offering and over-allotment *(Note (ii))*	169,258	1,693	1,336
At 31 December 2015 and 1 January 2016	**619,258**	**6,193**	**4,888**
Employee share option scheme:			
Shares issued in respect of exercise of share options	**980**	**10**	**9**
At 31 December 2016	**620,238**	**6,203**	**4,897**

(i) Capitalisation issue and capitalisation of shareholder's loans

Pursuant to the written resolution dated 6 May 2015, the Company allotted and issued 377,991,600 shares of HK$0.01 each to the then existing shareholders. This resolution was conditional upon the share premium account being credited as a result of the Company's public offering and pursuant to the resolution, a sum of approximately HK$3,780,000 (equivalent to approximately RMB2,984,000) standing to the credit of the share premium account as of 27 May 2015 was subsequently applied in paying up this capitalisation in full. Pursuant to the written resolution dated 6 May 2015, the Company also allotted and issued 72,000,000 shares of HK$0.01 each, all credited as fully paid, on the Listing Date, in full repayment of shareholder's loans in the amount of approximately HK$205,862,000 (equivalent to approximately RMB162,507,000). Consequently, HK$720,000 (equivalent to approximately RMB568,000) and approximately HK$205,142,000 (equivalent to approximately RMB161,939,000) were credited to share capital and share premium, respectively.

(ii) Issue of shares under public offering

On 27 May 2015, the Company issued 150,000,000 shares with a par value of HK$0.01, at a price of HK$2.28 per share by way of public offering to Hong Kong and overseas investors. On 22 June 2015, the over-allotment option was exercised and the Company allotted and issued 19,258,000 shares with a par value of HK$0.01, at a price of HK$2.28 per share. Net proceeds from these issues amounted to RMB288,342,000 (after offsetting expenses directly attributable to the issue of shares of RMB16,241,000), out of which RMB1,336,000 and RMB287,006,000 were credited to share capital and share premium, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2016, 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 customized solutions to the PRC and overseas customers, specialising in research and development, design, manufacture and sale of conventional and recycling asphalt mixing plants. 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.

Business Review

Though China has continued to implement its plan to increase investment in infrastructure projects, the funds for such infrastructure projects did not become available and resulted in the general hold-up of road construction and maintenance projects in China throughout the year. Notwithstanding the fact that the capital and cash flow in the road construction and maintenance industry remained tight and slow, the Group continued to participate in the top-tier highways construction and maintenance projects in the PRC. During the year, the Group completed the sale of 34 asphalt mixing plants and the lease of 9 asphalt mixing plants in 13 leasing contracts.

In 2016, the Group sold its asphalt mixing plants to customers engaged in various highway construction and road maintenance projects in Mainland China including Chaoshan Expressway (潮汕高速), Jingxin Expressway (京新高速), Chunan Expressway (楚南高速), Hunan Louheng Expressway (湖南婁衡高速), etc.

Up to 31 December 2016, the Group had asphalt mixing plants projects in a total of 23 overseas countries, including Australia, Russia, India, Saudi Arabia, Brunei, United Arab Emirates, Kazakhstan, Mongolia, Mozambique, Thailand and Hong Kong.

During the year ended 31 December 2016, the Group continued to expand its business and entered into potential markets in the “One Belt One Road” countries. The Group, through its wholly-owned subsidiary in Singapore, has entered into various distribution or agency agreements with local distributors or agencies in Myanmar, Indonesia, Vietnam, Brunei and Malaysia. In late 2016, the Group also set up a wholly-owned subsidiary in India which is principally engaged in leasing of asphalt mixing plants and provision of customized technology solutions to local customers in India. With the established overseas network across the “One Belt One Road” countries, the Group is prepared to participate in the upcoming road construction projects.

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 broadening income sources and raising profit. During the year, the Group set up a wholly-owned subsidiary in the PRC engaged in the production of asphalt mixtures which accounted for approximately RMB5.9 million of the Group's revenue in 2016.

In order to enhance the Group's one-stop total solution capability to the customers, the Group registered and set up a wholly-owned subsidiary engaged in finance leasing in Shanghai Free-Trade Zone in March 2016 which commenced business in late 2016. The Group is in the process of developing the business of manufacturing and sale of burner combustion equipment (which can be used for asphalt mixing plants and other purposes) 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. We expect that the business development of manufacturing and sale of burner combustion equipment to not only reduce the cost of producing asphalt mixing plants but also broaden the income source of the Group.

Research and Development

To maintain the Group's 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 strong research and development capabilities. As at 31 December 2016, the Group had 49 registered patents in the PRC (of which 4 were invention patents) and 22 software copyrights. In addition, 4 patents and 1 software copyright were pending registration as at 31 December 2016.

The Group continued to cooperate with the Research Institute of Highway, Ministry of Transport (交通運輸部公路科學研究院) and Institute of Tsinghua University, Hebei (河北清華發展研究院) in a number of national technical support projects focusing on energy saving, emission reduction, environmental protection and recycling aspects of resources recycling. The current research and development projects include "Asphalt Pavement Recycling Technology Equipment and Demonstration", which is a project subsidised by the PRC government and expected to be completed in late 2017. In addition, collaboration with Institute of Tsinghua University, Hebei (河北清華發展研究院) on the burning system design and energy consumption optimisation project was completed during the year.

The Group's technological innovation, research and development ability and innovation achievements have reached the advanced level in the industry. The major subsidiary of the Group, Langfang D&G, also qualifies as a high-technology enterprise under the PRC Enterprise Income Tax Law and is entitled to a preferential income tax rate of 15%.

Marketing

The Group placed great emphasis on the marketing and promotion of the brands, products and services offered. The Group developed its sales and marketing platform with its own sales network and distributors in the PRC as well as the overseas markets.

During the year, the Group held and participated in various promotional events, exhibitions and technical seminars. The Company participated in the Eco Expo Asia 2016, a trade fair organized by the Hong Kong Trade Development Council (HKTDC) and co-organized by the Environment Bureau of the Government of HKSAR, dedicated to fostering global green innovations, with the theme being "Green Solutions for a Changing Climate". At the event, the Group showcased a 3D animation of the structure and operation of an asphalt recycling plant with an interactive display panel. In November 2016, the Group organized a national customer event in Suzhou and met with over 400 representatives of our customers. During the event, the Group held a technical seminar with the participants on environmental recycling of asphalt mixture.

The Group had also participated in the Bauma China 2016, an international trade expo for construction and building-material machine industry held in Shanghai in November 2016. The Group showcased a newly designed Eco-series Monoblock asphalt mixing plant at this international industrial event.

Outlook

In 2017, we expect the PRC government to continue adopting policies to stimulate the economy and maintain currency stability. 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, we believe there is a growing demand for our recycling and environmentally-friendly products. We expect the demand for recycling asphalt plants as well as the modification services of adding recycling and environmental protection functions to existing plants to increase.

"One Belt One Road" is a core development strategy in PRC covering a broad spectrum of economic, political and social aspects of Mainland China and abroad. Investment in infrastructure overseas is a way of building up strategic partnerships with countries in the "One Belt One Road" region. The Group is actively pursuing various flagship "One Belt One Road" overseas projects led by state-owned enterprises.

In February 2017, the Group won a bid for an asphalt mixing plant to a China state-owned construction enterprise, which is a party to the major expressway construction project of the "China-Pakistan Economic Corridor". We are proud to participate in this predominant infrastructure project in connection with the "One Belt One Road" initiative. With our high quality asphalt mixing plants, on-site operation and value-added services, we will be able to bid for more upcoming projects.

Looking ahead, the Group will continue to grasp the opportunities in the "One Belt One Road" region to develop its business and explore potential overseas markets. Domestically, government funding of road construction projects will gradually be in place and the industry expects that more projects will be implemented in light of the PRC's 13th Five-Year Plan. With continuous technological innovation and investments in research and development, the Group is confident to remain as a leading player in the market and will use our best endeavors to bring better returns to the shareholders of the Company.

Financial Review

During the year ended 31 December 2016, the Group recorded an aggregate revenue of RMB321,449,000 (2015: RMB390,027,000), representing a decrease of 17.6% as compared to that of last year. Gross profit decreased by 23.3% from RMB165,408,000 for the year ended 31 December 2015 to RMB126,934,000 for the year ended 31 December 2016. Gross profit margin decreased by 2.9 percentage point from 42.4% to 39.5%.

	2016	2015	Change
	RMB'000	*RMB'000*	
Sales of asphalt mixing plants	**246,193**	321,436	-23.4%
Sales of spare parts and provision of equipment modification services	**23,625**	26,286	-10.1%
Operating lease income of asphalt mixing plants	**45,766**	42,305	+8.2%
Sales of asphalt mixtures	**5,865**	–	N/A
	321,449	390,027	-17.6%

Sales of Asphalt Mixing Plants

	2016	2015	Change
	RMB'000	*RMB'000*	
Revenue	**246,193**	321,436	-23.4%
Gross profit	**88,613**	124,771	-29.0%
Gross profit margin	**36.0%**	38.8%	-2.8pp
Number of contracts	**34**	46	-12
Average contract value	**7,241**	6,988	+3.6%

Revenue from the sales of asphalt mixing plants decreased as a result of the decrease in number of contracts recognised during the year. The decrease in revenue was mainly attributable to the fact that the government funds for infrastructure projects in China did not become available as planned in 2016, resulting in the decrease in revenue of the Group from the sales of asphalt mixing plants, spare parts and components and the provision of equipment modification services in China during the year. The high degree of customization of asphalt mixing plants required by the customers resulted in the increase in the average contract value from RMB6,988,000 to RMB7,241,000 for projects completed during the year. Gross profit margin decreased by 2.8 percentage point during the year as a result of an increase in raw material cost.

By Type of Plants

	2016	2015	Change
	RMB'000	*RMB'000*	
Recycling Plant			
Revenue	**108,879**	174,670	-37.7%
Gross profit	**41,935**	69,416	-39.6%
Gross profit margin	**38.5%**	39.7%	-1.2pp
Number of contracts	**16**	25	-9
Average contract value	**6,805**	6,987	-2.6%
Conventional Plant			
Revenue	**137,314**	146,766	-6.4%
Gross profit	**46,678**	55,355	-15.7%
Gross profit margin	**34.0%**	37.7%	-3.7pp
Number of contracts	**18**	21	-3
Average contract value	**7,628**	6,989	+9.1%

Revenue from the sales of Recycling Plants decreased by 37.7% primarily because of the decrease in number of contracts during the year. The average contract value remained at approximately RMB6.8 million. Gross profit margin decreased by 1.2 percentage point during the year as a result of an increase in raw material cost.

Revenue from the sales of Conventional Plants decreased by 6.4% primarily because of the decrease in number of contracts offset by the increase in the average contract value during the year. The increase in average contract value mainly resulted from an increase in demand for high capacity asphalt mixing plants during the year. Gross profit margin decreased by 3.7 percentage point during the year mainly due to an increase in raw material cost.

By Geographical Location

	2016	2015	Change
	RMB'000	*RMB'000*	
PRC			
Revenue	**222,471**	263,872	-15.7%
Gross profit	**86,473**	108,117	-20.0%
Gross profit margin	**38.9%**	41.0%	-2.1pp
Number of contracts	**31**	36	-5
Average contract value	**7,176**	7,330	-2.1%
Overseas			
Revenue	**23,722**	57,564	-58.8%
Gross profit	**2,140**	16,654	-87.2%
Gross profit margin	**9.0%**	28.9%	-19.9pp
Number of contracts	**3**	10	-7
Average contract value	**7,907**	5,756	+37.4%

Revenue from the sales in the PRC decreased primarily because of the decrease in number of contracts, which was mainly attributable to the fact that the government funds for such infrastructure projects did not become available as planned in 2016. Gross profit margin decreased by 2.1 percentage point due to an increase in raw material cost during the year.

Revenue from overseas sales which included direct and indirect export sales to overseas markets decreased mainly due to the decrease in the number of overseas order. Gross profit margin decreased by 19.9 percentage point during the year as a result of an increase in raw material cost even though there was an increase in average contract value by 37.4%.

Sales of spare parts and components and provision of equipment modification services

	2016	2015	Change
	RMB'000	*RMB'000*	
Revenue	**23,625**	26,286	-10.1%
Gross profit	**9,522**	10,153	-6.2%
Gross profit margin	**40.3%**	38.6%	+1.7pp

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

Revenue from the sales of spare parts and components and provision of equipment modification services decreased during the year mainly because of the hold-up of some road construction projects and hence a decrease in demand for modification services. Gross profit margin increased by 1.7 percentage point mainly because of an improvement in the gross profit margin for sales of spare parts and components during the year, while the gross profit margin for the sales of modification services remained steady during the year.

Operating lease of asphalt mixing plants

	2016	2015	Change
	RMB'000	*RMB'000*	
Revenue	**45,766**	42,305	+8.2%
Gross profit	**27,957**	30,484	-8.3%
Gross profit margin	**61.1%**	72.1%	-11pp
Number of plants held for operating lease	**9**	9	–

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

Revenue from operating lease of asphalt mixing plants increased by 8.2% primarily because of the number of operating lease agreement increased from 12 to 13 during the year. Gross profit margin decreased by 11 percentage point during the year which was mainly due to depreciation charge for the full year in 2016.

Other Income and Other (Losses)/Gains, Net

Other income represented rental income and government grants. Other losses mainly represented net foreign exchange loss resulting from depreciation of offshore RMB, net loss on disposal of property, plant and equipment and fair value loss on revaluation of investment property.

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. Distribution costs represented 13.7% (2015: 9.9%) of revenue for the year ended 31 December 2016. Increase in distribution costs was mainly due to increase in marketing activities as discussed under the section headed "Marketing" above.

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses, professional fees, provision for bad debts and depreciation. Administrative expenses increased by approximately RMB21,198,000 from RMB84,137,000 for the year ended 31 December 2015 to RMB105,335,000 for the year ended 31 December 2016, primarily due to the increase in provision for impairment of trade and other receivables of approximately RMB21,771,000.

As the funds for the infrastructure projects did not become available as planned in 2016, the Group noted that the capital and cash flow in the road construction and maintenance industry became tighter and slower than expected. Therefore, the collection of outstanding trade receivables from the customers of the Group was slower than that of the year ended 31 December 2015. Accordingly, the Group has increased the amount of the non-cash accounting provision for impairment losses of trade receivables.

Finance Income/(Costs), Net

Finance costs mainly included bank interest income and interest expenses on interest-bearing bank loans and borrowings. Increase in bank interest income was mainly due to increase in RMB deposit rate during the year.

Income Tax Expense

The income tax expense for the year ended 31 December 2016 was mainly attributable to the net profit generated by its PRC subsidiary which is a "high-technology enterprise" entitled to a preferential income tax rate of 15%.

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company amounted to approximately RMB28.5 million for the year ended 31 December 2016 compared with the profit attributable to owners of the Company of approximately RMB30.8 million for the year ended 31 December 2015. The loss for the year was mainly due to the decrease in revenue and the increase in provision for impairment loss of trade and other receivables of approximately RMB21.7 million as discussed above.

Working Capital Management

Net current assets of the Group amounted to RMB560,055,000 (2015: RMB658,393,000) with a current ratio of 3.0 (2015: 4.1) times as at 31 December 2016.

Inventories increased by RMB37,006,000 from RMB131,757,000 as at 31 December 2015 to RMB168,763,000 as at 31 December 2016. Inventory turnover days was 282 for the year ended 31 December 2016, representing an increase of 83 days as compared to 199 days for the year ended 31 December 2015. The increase in inventory turnover days was mainly because of the increase in raw materials and work in progress.

Trade and bills receivable decreased by RMB3,873,000 from RMB388,097,000 as at 31 December 2015 to RMB384,224,000 as at 31 December 2016. Trade and bills receivable turnover days was 438 for the year ended 31 December 2016, representing an increase of 110 days as compared to 328 days for the year ended 31 December 2015. The increase in trade and bills receivable turnover days was mainly due to the delay in payments from some of the PRC customers due to the slow settlement of government funding for the PRC road construction and maintenance projects. The Group believes that this was an industry wide phenomenon in the PRC. The Group has credit policy and internal control procedures in place to review and collect the trade and bills receivable in order to improve the collection cycle.

Trade and bills payable increased by RMB90,057,000 from RMB68,190,000 as at 31 December 2015 to RMB158,247,000 as at 31 December 2016. Trade and bills payable turnover days was 208 for the year ended 31 December 2016, representing an increase of 93 days as compared to 115 days for the year ended 31 December 2015. The increase in trade and bills payable turnover days was mainly because of the extended payment to suppliers and subcontractors.

Liquidity and Financial Resources

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

As at 31 December 2016, the Group had cash and cash equivalents and bank deposits of RMB169,261,000 (2015: RMB168,881,000) and RMB89,031,000 (2015: RMB162,439,000), respectively. In addition, the Group had interest-bearing bank borrowings of RMB63,271,000 (2015: RMB103,381,000) as at 31 December 2016. The Group's cash and cash equivalents, bank deposits and borrowings were mostly denominated in Renminbi ("RMB") and Hong Kong dollars ("HK$"). The borrowings were mainly arranged on a floating rate basis. The gearing ratio, calculated as total bank borrowings divided by equity attributable to owners of the Company, amounted to 8.6% (2015: 13.6%). The decrease in gearing ratio was mainly because of the decrease in borrowings as at 31 December 2016.

As at 31 December 2015, borrowings of RMB73,093,000 were bank borrowings from the factoring of accounts receivable as working capital for the operations of the Group. The bank borrowings were denominated in RMB, repayable within one year or on demand and interest-bearing from 3.92% to 5.87% per annum. There was no such borrowing as at 31 December 2016.

During the year ended 31 December 2016, the Group recorded a net cash outflow from operating activities of RMB8,413,000 (2015: RMB55,722,000). Net cash generated from investing activities amounted to RMB29,931,000 (2015 net cash used in investing activities: RMB90,670,000) for the year ended 31 December 2016. Net cash used in financing activities for the year ended 31 December 2016 amounted to RMB32,825,000 (2015 net cash generated from financing activities: RMB274,651,000).

Capital Commitments and Contingent Liabilities

	2016	2015
	RMB'000	*RMB'000*
Contracted for	**2,250**	3,449
Authorised but not contracted for	**7,955**	6,032
	10,205	9,481

Certain customers of the Group financed their purchase of the Group's machinery products through finance leases provided by third-party leasing companies. Under the third-party leasing arrangement, the Group provided guarantees to the third-party leasing companies that in the event of customer default, the Group was required to make payments to the leasing companies for the outstanding lease payments due from the customers. At the same time, the Group was entitled to repossess and sell the leased machinery, and retain any net proceeds in excess of the guarantee payments made to the leasing companies. As at 31 December 2016 and 2015, the Group's maximum exposure to such guarantees were RMB6,634,000 and RMB 9,599,000, respectively. The terms of these guarantees coincided with the tenure of the lease contracts which generally ranged from one to two years. For the years ended 31 December 2016 and 2015, there was no payment made for repossession of machinery incurred under the guarantee arrangement as a result of customer default.

Pledge of Assets

As at 31 December 2016, property, plant and equipment of RMB48,947,000 (2015: Nil), land use right of RMB5,226,000 (2015: Nil), bank deposits of RMB89,031,000 (2015: RMB60,370,000) and trade receivables of nil (2015: RMB73,093,000) were pledged for borrowings and bills payable of the Group.

Foreign Exchange Risk

The reporting currency of the Group was RMB. The Group was exposed to foreign exchange risk through sales and purchases which were denominated in a foreign currency including United States dollars and Euros. The appreciation or depreciation of RMB 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 RMB 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 as at 31 December 2016.

Significant Investments and Material Acquisitions or Disposals

On 17 June 2016, the Group entered into four sale and purchase agreements with Diamond Strong Limited, Mr. Chan Shing Kwong and Balama Prima Engineering Company Limited, pursuant to which the Group conditionally agreed to purchase certain properties in Hong Kong at an aggregate consideration of HK$52,800,000 (equivalent to approximately RMB45,244,000) primarily for its office use. The transactions were approved by the independent shareholders at an extraordinary general meeting held on 26 July 2016 and completed on 5 August 2016.

Save as disclosed above, there were no significant investments held by the Company for the year ended 31 December 2016, nor was there any plan authorized by the Board for other material investments or additions of capital assets as at the date of this announcement.

USE OF PROCEEDS

Net proceeds from the global offering of the Company were approximately HK$334.4 million (equivalent to approximately RMB263.9 million), after deducting the underwriting commissions and other listing expenses. As at 31 December 2016, the unutilised proceeds were deposited in licensed banks in Hong Kong and China.

Changes in Use of Proceeds

The Company announced on 1 March 2017 for the change in 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 31 December 2016 and 1 March 2017, respectively:

	Original allocation *RMB'million*	Revised allocation *RMB'million*	Utilised amount as at 31 December 2016 *RMB'million*	Utilised amount as at 1 March 2017 *RMB'million*	Unutilised amount as at 1 March 2017 *RMB'million*
Expansion of manufacturing facilities					
Acquisition of land	39.6	–	–	–	–
Development and construction of the manufacturing facilities	65.9	31.5	20.5	21.5	10.0
Purchase equipment for the manufacturing facilities	26.4	7.2	2.2	2.2	5.0
Research and development	52.8	52.8	23.3	24.3	28.5
Development of new business	26.4	72.0	6.6	21.1	50.9
Expansion of the sales and distribution networks and promotional activities	26.4	26.4	13.0	13.3	13.1
Working capital and general corporate purposes	26.4	74.0	26.4	26.4	47.6
	263.9	263.9	92.0	108.8	155.1

Reasons for the Changes in Use of Proceeds

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 at 1 March 2017. With the benefit of enhancement in supply chain management and network of capable outsourcing partners, we are of the view that the expansion of manufacturing facilities can be scaled down and expect that only an additional amount of approximately RMB15.0 million would be required to complete the Group's expansion of manufacturing facilities in 2017. We consider 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, we expect market demand for our products to increase. On the other hand, it requires time for the projects' funding to be eventually in place and we expect the collection of outstanding trade receivables from the customers of the Company to remain slow in 2017. Hence, we are 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 strives 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. We consider 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 resolved on 1 March 2017 and decided to change the original proposed use of the net proceeds and reallocate the unutilised net proceeds as described above.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had approximately 438 (2015: 444) employees. The total staff costs for the year ended 31 December 2016 amounted to approximately RMB63,802,000 (2015: RMB51,515,000).

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, salaries, discretionary bonuses, contributions to pension schemes, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. The Group also provided training to employees on a regular basis. In accordance with the relevant requirements, the Group made contributions to pension and provided other employees benefits.

The Group has adopted a share option scheme pursuant to which employees may be granted options to subscribe for shares of the Company as incentives or rewards for their service rendered to the Group. Since the adoption of the share option scheme and up to 31 December 2016, the Company granted 5,000,000 share options to its employees and 19,700,000 share options to the Directors, of which 980,000 share options were exercised.

DIVIDENDS

The Board of the Company has proposed the payment of a final dividend of HK1.8 cents (equivalent to approximately RMB1.6 cents) per ordinary share for the year ended 31 December 2016. The proposed final dividend, if approved by the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 26 May 2017 (the "2017 AGM"), will be paid on or about 22 June 2017 to the shareholders whose names appear on the register of members of the Company on 8 June 2017.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Tuesday, 23 May 2017 to Friday, 26 May 2017, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2017 AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 22 May 2017.

In addition, for determining the entitlement to the proposed final dividend (subject to approval by the shareholders at the 2017 AGM), the register of members of the Company will be closed from Tuesday, 6 June 2017 to Thursday, 8 June 2017, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 5 June 2017.

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the year ended 31 December 2016, the Company, in the opinion of the Directors, complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SUSTAINABILITY

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

The sustainability report (the "Sustainability Report") of the Group demonstrated the integration of environmental, social and governance considerations in its business approach. The innovative technology and sustainable products carry a strong message: with every segment of road paved with asphalt mixtures from our asphalt mixing plant, we leave an imprint of sustainability. The Sustainability Report will be published on the website of Hong Kong Exchanges and Clearing Limited and the website of the Company in due course, which provides the sustainability performance for the year ended 31 December 2016, and sets out the sights and plans for the future.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Specific enquiry was made to all the Directors and all the Directors confirmed that they complied with the Model Code throughout the year ended 31 December 2016.

AUDIT COMMITTEE

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. Law Wang Chak, Waltery (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson. All of them are independent non-executive Directors. The final results of the Group for the year ended 31 December 2016 have been reviewed by the Audit Committee.

ANNUAL GENERAL MEETING

The 2017 AGM will be held on Friday, 26 May 2017, and the notice of the 2017 AGM will be published and despatched in the manner as required by the Listing Rules in due course.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The 2016 annual report will also be published on the website of Hong Kong Exchanges and Clearing Limited and the website of the Company and will be despatched to the shareholders of the Company in due course.

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

Hong Kong, 30 March 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.