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D&G TECHNOLOGY

D&G TECHNOLOGY HOLDING COMPANY LIMITED

<INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY>

STOCK CODE 1301

年報 2017
ANNUAL REPORT

環保優秀企業 EcoChallenger 中銀香港 BOCHK 企業環保領先大獎 2016 Corporate Environmental Leadership Awards 2016

HKGPC Hong Kong Green Purchasing Charter Fellow Member of HKGPC

Corporate Vision Corporate Green Governance Award Hong Kong Green Awards 2017

商界展關懷 caringcompany 2016-18 Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

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CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. Choi Hung Nang *(Chairman)*
Ms. Choi Kwan Li, Glendy *(Chief Executive Officer)*
Mr. Choi Hon Ting, Derek
Mr. Liu Tom Jing-zhi
Mr. Lao Kam Chi
Mr. Yu Ronghua *(passed away on 13 January 2018)*

Non-Executive Directors
Mr. Chan Lewis
Mr. Alain Vincent Fontaine

Independent Non-Executive Directors
Mr. Law Wang Chak, Waltery
Mr. Li Zongjin
Mr. Lee Wai Yat, Paco
Mr. Fok Wai Shun, Wilson

Audit Committee
Mr. Law Wang Chak, Waltery *(Chairman)*
Mr. Lee Wai Yat, Paco
Mr. Li Zongjin
Mr. Fok Wai Shun, Wilson

Remuneration Committee
Mr. Fok Wai Shun, Wilson *(Chairman)*
Ms. Choi Kwan Li, Glendy
Mr. Law Wang Chak, Waltery

Nomination Committee
Mr. Choi Hung Nang *(Chairman)*
Mr. Li Zongjin
Mr. Lee Wai Yat, Paco

Risk Management Committee
Ms. Choi Kwan Li, Glendy *(Chairman)*
Mr. Liu Tom Jing-zhi
Mr. Law Wang Chak, Waltery
Mr. Fok Wai Shun, Wilson
Mr. Tsang Chin Pang

Company Secretary
Mr. Tsang Chin Pang

Authorised Representatives
Ms. Choi Kwan Li, Glendy
Mr. Tsang Chin Pang

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Hebei Province, PRC

Hong Kong Branch Share Registrar
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Hong Kong

Cayman Islands Principal Share Registrar and Transfer Office
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KY1-1111, Cayman Islands

Auditor
PricewaterhouseCoopers

Legal Advisor
MinterEllison

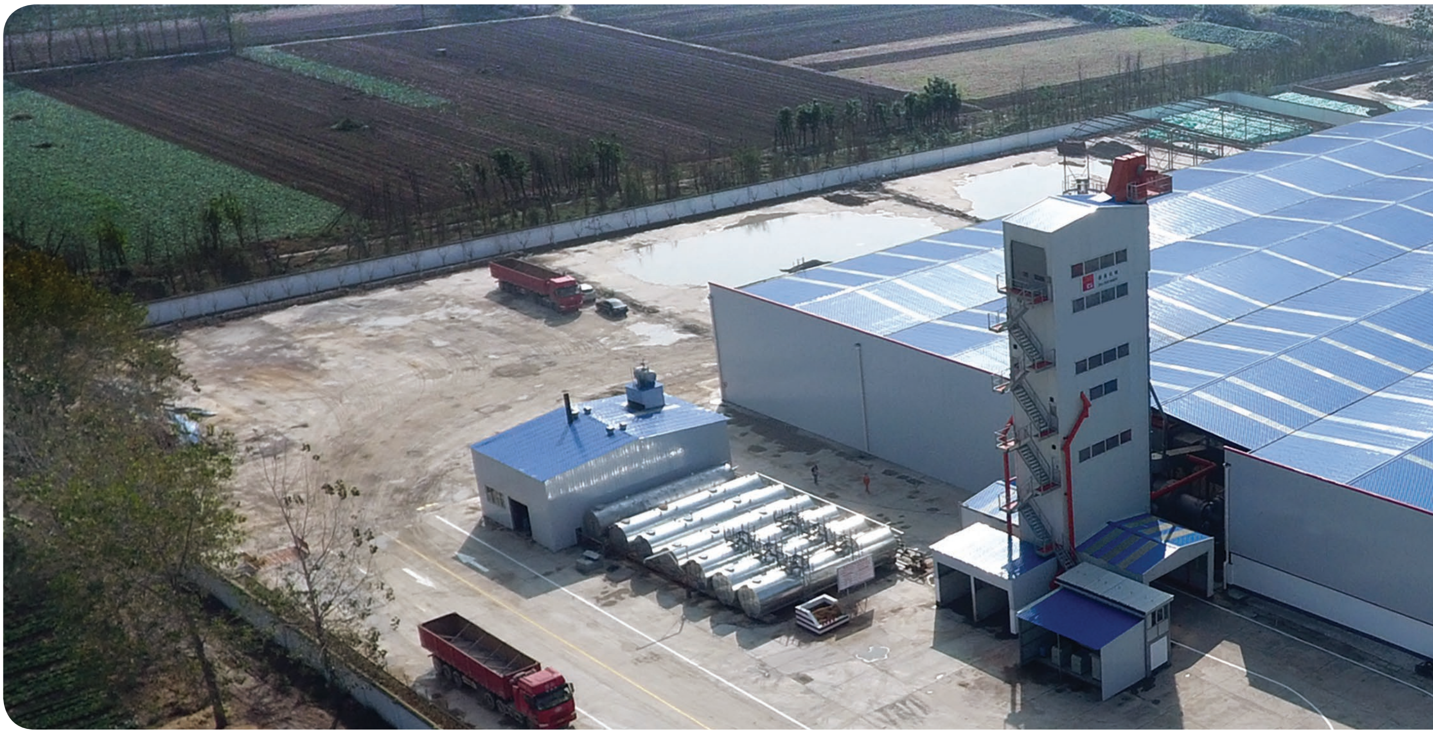
Principal Bankers
Industrial Bank Co., Ltd.
KBC Bank N.V.
Nanyang Commercial Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

Company Website
www.dgtechnology.com

FIVE YEAR FINANCIAL SUMMARY

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Results					
Revenue	**447,927**	321,449	390,027	444,313	412,260
Gross profit	**170,625**	126,934	165,408	184,183	173,732
Profit/(Loss) for the year attributable to:					
Owners of the Company	**21,157**	(28,499)	30,788	74,326	60,338
Non-controlling interests	**–**	–	–	8,832	12,154
	21,157	(28,499)	30,788	83,158	72,492
Assets, Liabilities and Equity					
Total assets	**1,027,947**	1,017,223	974,505	590,600	496,622
Total liabilities	**(287,131)**	(281,294)	(212,239)	(323,520)	(151,157)
Total Equity	**740,816**	735,929	762,266	267,080	345,465

CHAIRMAN'S STATEMENT



Dear Shareholders,

I am pleased to present the annual report of D&G Technology Holding Company Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") for the year ended 31 December 2017.

In 2017, the fixed asset investment in the People's Republic of China (the "PRC", "Mainland China" or "China") increased by 7.2% compared with 2016's 8.1%. Though that is the slowest annual growth in fixed asset investment in PRC since 1999, with the 13th "Five-Year Plan" of China with budget of RMB7.8 trillion investment on road construction and maintenance, the road construction industry in China gradually recovered during the year. Together with the "One Belt One Road" initiatives and our efforts in business development in overseas markets, the demand for our products in the PRC and overseas markets both rebounded in 2017.

In order to stay competitive in the market, we continued to develop in overseas markets along the "One Belt One Road" initiatives, enhance our research and development capabilities and develop the upstream and downstream asphalt related businesses.

The Group successfully pursued six contracts of asphalt mixing plant to China-Pakistan Economic Corridor projects led by stated-owned enterprises during the year. The China-Pakistan Economic Corridor projects were the flagship "One Belt One Road" projects and our participation in these projects further proved that our product and services were well recognized in the market. The Group is confident that with our strengths on high quality asphalt mixings plants, on-site operations and value-added services, more and more "One Belt One Road" projects can be obtained.

Since the Company's listing in May 2015, the Group continuously expands to overseas markets with subsidiary companies set up in Singapore, India and Pakistan. During the year, the Group successfully entered into sales contracts for exporting asphalt mixing plants under the brand name of PRIMACH to Myanmar and Malaysia. Through the continuous overseas markets expansion, the Group shall benefit from the direct business relationship built up with local customers along the "One Belt One Road" countries.

In December 2017, we have completed the construction of a research and development building at our manufacturing plant at Langfang, China. With the enhanced research and development capabilities, the Group shall endeavor to develop and manufacture asphalt mixing plants with more environmentally-friendly and energy-saving features. Benefited from the PRC government's emphasis on and effort in promoting environmental protection, we are confident that the demand for recycling plants with advanced environmental-protection features will grow in the near future.

Throughout the years, we continuously accumulate knowledge and experience on asphalt mixing plants and explore to develop upstream and downstream asphalt related businesses. In 2017, the Group has been putting emphasis on the research and development of burner combustion components (one of the components of asphalt mixing plants). The Group is in the process to register the patents of combustion technologies. Currently, the Group is exploring potential strategic partners in China to develop the production and sales of asphalt mixtures business. We believe that business synergies should be created through co-operation with strategic partners who possess local expertise in China whereas the Group possesses pioneer technology in asphalt mixing plants. Through continuous development of new businesses, we expect to gradually diversify the business portfolio of the Group and broaden its source of income.

Being a socially responsible company, we are also committed to promoting environmentally-friendly measures to reduce pollution. In 2017, the Company has been awarded the "EcoChallenger" in BOCHK Corporate Environmental Leadership Awards, which is jointly organized by the Federation of Hong Kong Industries and Bank of China (Hong Kong) with more than 450 participating enterprises. The Group's perseverance and efforts in green governance have been awarded with the "Hong Kong Green Awards 2017" in the division of "Corporate Green Governance Award – Corporate Vision". The Hong Kong Green Awards 2017 is organized by Green Council with participation from corporates from wide spectrum.

With continuous innovation and pursuit of excellence, the Group's success is widely recognized in the market. It is recognized as one of the "China Top 30 Construction machinery Manufacturers" in 2017, ranked within the "China Top 50 Construction Machinery Manufacturers" for the seventh consecutive year since 2011, and also be ranked as one of the "World Top 100 (Plus 50) Construction Machinery Manufacturers" and ranked as the top among all those professional asphalt mixing plant manufacturers.

In addition to maintaining its leading position in the PRC, the Group will broaden the business horizon, leverage the strength and experience accumulated, capture the opportunities of "One Belt One Road" initiative and explore to develop upstream and downstream business, with an aim to bring fruitful returns to the shareholders of the Company.

Last but not least, I, on behalf of the board of directors of the Company (the "Board" or the "Directors"), would like to express our sincere gratitude to the management team and staff for their dedication, and to our shareholders and investors for their trust and support to the Group.

Choi Hung Nang
Chairman

28 March 2018

For the year ended 31 December 2017, the Group continued to be a leading market player in the road construction and maintenance machinery industry focusing on medium to large-scale asphalt mixing plants. The Group provided one-stop customised solutions to the People's Republic of China ("PRC", "China" or Mainland China") and overseas customers, specialising in research and development, design, manufacture and sale of conventional and recycling asphalt mixing plants.

Business Review

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

During the year, the Group participated in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were 52 (2016: 34) sales contracts of asphalt mixing plants completed by the Group during the year and the asphalt mixing plants were sold to customers engaged in major highway construction and maintenance projects such as Waiwu Expressway (威烏高速), Lungtsing Expressway (龍青高速), Waiyat Expressway (濰日高速), Jitsing Expressway (濟青高速), Beifu Expressway (北富高速), etc. Out of the 52 asphalt mixing plants sold during the year, 34 asphalt mixing plants were sold to China, one to Hong Kong and 17 were sold to overseas countries including six to Pakistan, five to Russia, two to Angola, one to Bangladesh, one to India, one to Sierra Leone and one to Ethiopia. Due to the increase in number of road construction projects, there was an increase in demand for asphalt mixing plants, which has resulted in an increase in total revenue of the Group by 39.3% as compared to last year.

The Group continued to expand its business and entered into potential markets along 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. During the year, the Group has entered into sales contracts under the brand name of PRIMACH in Myanmar and Malaysia. The Group has also entered into six sales contracts of asphalt mixing plants with Chinese state-owned enterprises engaged in the construction of China-Pakistan Corridor. With the established overseas network along the "One Belt One Road" countries, the Group is well 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 broaden the income sources and enhance our profitability. The Group has set up a wholly-owned subsidiary in the PRC engaged in the production of asphalt mixtures which contributed revenue of RMB5.9 million to the Group in 2016. During the year, the Group did not engage in any projects related to the production of asphalt mixtures. In order to fully utilize the Company's resources and local expertise, the Group has been exploring potential strategic partners in the PRC to develop the production and sale of asphalt mixtures business.

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 services during the year. The burner combustion equipment can be applied in a wide spectrum including asphalt mixing plants, furnace, heating system, etc. During the year, certain combustion technologies were developed and 18 patents of combustion technology are pending registration.

The Group is also exploring potential opportunities arising from"One Belt One Road" projects including road construction materials supply to "One Belt One Road" countries and provision of road pavement and maintenance services. With the diversification of revenue stream in upstream and downstream asphalt related business, the Group should be able to grasp the business opportunities of "One Belt One Road" in the coming future.

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 the strong research and development capabilities and develop innovative ideas. As at 31 December 2017, the Group had 58 (31 December 2016: 49) registered patents in the PRC (of which four were invention patents) and 24 software copyrights (31 December 2016: 22). In addition, 22 patents copyrights are pending registration as at 31 December 2017.

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 research and development projects include "Asphalt Pavement Recycling Technology Equipment and Demonstration", which was a project subsidised by the PRC government and was completed during the year.

Marketing

The Group placed great emphasis on the marketing and promotion of its brands, products and services offered and leveraged different online platforms, including global trading B2B online platforms, mobile websites and the WeChat platform to offer better services to customers and establish a better brand image in both PRC and overseas markets.

During the year, the Group participated in various promotional events and technical seminars such as the Construction, Equipment & Technology Fair held in Russia, ASEAN INTERMAT, the Southeast Asian trade show for construction and infrastructure held in Bangkok and the EXCON 2017 held in India.

In May 2017, the Group was awarded Quam IR Awards 2016 – Main Board Category. The Quam IR Awards aims to recognize models of practice and leadership in investor relations among the listed companies in the Asia Pacific region for their outstanding communications between companies and stakeholders. This is the second consecutive year that the Group was recognized, following the award of Quam IR Awards 2015 – First Year After Listing Category in May 2016.

In June 2017, the Group was awarded as an "EcoChallenger" in the BOCHK Corporate Environmental Leadership Awards which was organized by the Federation of Hong Kong Industries and Bank of China (Hong Kong). The award is a recognition of the Group's contribution to the promotion of environmental protection.

Ms. Choi Kwan Li, Glendy ("Ms. Glendy Choi"), the Group's chief executive officer, was invited to be one of the guest speakers of the "Belt and Road Experience Sharing Forum" held in June 2017 by the Belt and Road Office of the Hong Kong government together with the Commerce and Economic Development Bureau, Development Bureau, Education Bureau and Home Affairs Bureau. During the forum, Ms. Glendy Choi shared the experience of business development in the "One Belt One Road" countries with over 500 participants including students, professionals and young businessmen.

In September 2017, the Group was awarded as the China Top 30 Construction Machinery Manufacturers. The award was jointly organized by the China Construction Machinery Industry Association, the American Equipment Manufacturers Association and the Korea Construction Machinery Manufacturers Association. This is the seventh consecutive year that the Group was recognized with China Top 50 since 2011.

Outlook

Looking forward, we believe the PRC government will continue adopting policies to stimulate the economy and maintain currency stability. In increasing awareness on environmental protection issues during the asphalt mixture production among the road construction and maintenance companies and the PRC government's emphasis on reducing pollution from industrial sector, the demand for recycling and environmentally friendly products will continue to grow. There will be increasing demand for recycling asphalt plants as well as the modification services of adding recycling and environmental protection functions to existing plants. The Group will focus on promoting green technology innovation and continue to improve its competitive advantage so as to reinforce its leading position in the market.

"One Belt One Road" is one of the core development strategies in the 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 along the "One Belt One Road" region. During the year, the Group has participated in numerous "One Belt One Road" construction projects led by Chinese state-owned enterprises, including major expressway construction project of the "China-Pakistan Economic Corridor" and the project of "Central Asia Economic Corridor". The Group is honoured to participate in the major infrastructure construction projects along the "One Belt One Road" countries and is prepared for more projects in the future.

The demand for asphalt mixing plants in 2018 shall remain significant along the "One Belt One Road" region. The Group shall take the momentum forward and develop its businesses in the industry, including but not limited to explore the co-operation with strategic partners in local countries to leverage their local expertise and create business synergies.

Financial Review

During the year ended 31 December 2017, the Group recorded an aggregate revenue of RMB447,927,000 (2016: RMB321,449,000), representing an increase of 39.3% as compared to that of last year. Gross profit increased by 34.4% from RMB126,934,000 for the year ended 31 December 2016 to RMB170,625,000 for the year ended 31 December 2017. Gross profit margin remained stable at 38.1% compared to 39.5% in last year.

	2017 RMB'000	2016 RMB'000	Change
Sales of asphalt mixing plants	**367,655**	246,193	+49.3%
Sales of spare parts and provision of equipment modification services	**38,001**	23,625	+60.9%
Operating lease income of asphalt mixing plants	**38,123**	45,766	-16.7%
Sales of asphalt mixtures	**–**	5,865	N/A
Finance lease income	**4,148**	–	N/A
	447,927	321,449	+39.3%

Sales of Asphalt Mixing Plants

	2017 RMB'000	2016 RMB'000	Change
Revenue	**367,655**	246,193	+49.3%
Gross profit	**134,514**	88,613	+51.8%
Gross profit margin	**36.6%**	36.0%	+0.6pp
Number of contracts	**52**	34	+18
Average contract value	**7,070**	7,241	-2.4%

Revenue from the sales of asphalt mixing plants increased as a result of the increase in number of contracts which was partially offset by the decrease in average contract value during the year. The increase in revenue was mainly attributable to the increase in road construction projects both in China and overseas during the year, especially the number of contracts in overseas market increased from 3 to 18. The average contract value remained stable with a slight decrease of 2.4%. Gross profit margin remained stable at around 36%.

By type of Plants

	2017 RMB'000	2016 RMB'000	Change
Recycling Plants			
Revenue	**203,152**	108,879	+86.6%
Gross profit	**77,295**	41,935	+84.3%
Gross profit margin	**38.0%**	38.5%	-0.5pp
Number of contracts	**28**	16	+12
Average contract value	**7,255**	6,805	+6.6%
Conventional Plants			
Revenue	**164,503**	137,314	+19.8%
Gross profit	**57,219**	46,678	+22.6%
Gross profit margin	**34.8%**	34.0%	+0.8pp
Number of contracts	**24**	18	+6
Average contract value	**6,854**	7,628	-10.1%

Revenue from the sales of Recycling Plants increased by 86.6% which was mainly as a result of both the increase in number of contracts as well as the increase of average contract value during the year. The demand for recycling asphalt mixing plants continued to grow in both PRC and the overseas market during the year as a result of increasing awareness on environmental protection. 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 remained stable during the year.

Revenue from the sales of Conventional Plants increased by 19.8% primarily because of the increase in number of contracts and partially offset by the decrease in the average contract value during the year. The decrease in average contract value was mainly resulted from the increased demand for low capacity asphalt mixing plants from the overseas customers. Gross profit margin remained stable during the year.

By Geographical Location

	2017 RMB'000	2016 RMB'000	Change
PRC			
Revenue	**257,927**	222,471	+15.9%
Gross profit	**102,581**	86,473	+18.6%
Gross profit margin	**39.8%**	38.9%	+0.9pp
Number of contracts	**34**	31	+3
Average contract value	**7,586**	7,176	+5.7%
Overseas			
Revenue	**109,728**	23,722	+362.6%
Gross profit	**31,933**	2,140	+1,392.2%
Gross profit margin	**29.1%**	9.0%	+20.1pp
Number of contracts	**18**	3	+15
Average contract value	**6,096**	7,907	-22.9%

Revenue from the sales in the PRC increased because of the increase in number of contracts as well as the increase of average contract value. The increase in revenue was mainly due to the increase in road construction projects especially in northern and southern China. The increase in average contract value was mainly resulted from the higher demand for high capacity asphalt mixing plants.

Revenue from overseas sales increased significantly mainly because of the increase in number of contracts completed during the year. Gross profit margin significantly increased from 9% to 29.1%. The decrease in average contract value was mainly because of the exceptional high contract value of the projects in Hong Kong in 2016. The relatively low gross profit margin of 9.0% in 2016 was mainly because of the increased raw material costs of the projects in Hong Kong.

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

	2017 RMB'000	2016 RMB'000	Change
Revenue	**38,001**	23,625	+60.9%
Gross profit	**17,306**	9,522	+81.7%
Gross profit margin	**45.5%**	40.3%	+5.2pp

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 increased during the year mainly because of increase in demand for modification services from customers. Revenue of sales of spare parts and components amounted to RMB21.1 million (2016: RMB17.9 million), representing an increase of approximately RMB3.2 million and revenue of provision of equipment modification services amounted to RMB16.9 million (2016: RMB5.7 million), representing an increase of approximately RMB11.2 million. Gross profit margin increased mainly due to improvement in the gross profit margin of sales of spare parts and components to 46.2% (2016: 38.4%) during the year.

Operating lease of asphalt mixing plants

	2017 **RMB'000**	2016 RMB'000	Change
Revenue	**38,123**	45,766	-16.7%
Gross profit	**14,657**	27,957	-47.6%
Gross profit margin	**38.4%**	61.1%	-22.7pp
Number of plants held for operating lease	**13**	9	+4

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 decreased by 16.7% primarily because the total volume of productions during the year were lower compared with last year though the number of operating agreements remained the same during the year (2016: 13). Gross profit margin decreased by 22.7 percentage points primarily because of decrease in production of asphalt mixtures by the customers but increase in the fixed overheads, including but not limited to staff costs and depreciation charged during the year.

Other Income and Other Gains/(Losses), Net

During the year, other income and other gains/(losses), net mainly represented net exchange gain/loss on translation of pledged bank deposits, fair value gain on revaluation of investment property, rental income, loss on disposal of property, plant and equipment and government grants. The increase was mainly due to the net exchange gain of RMB1.9 million (2016: loss of RMB6.2 million) due to appreciation of Renminbi off-shore bank deposits, the fair value gain on revaluation of investment property situated in Hong Kong during the year by approximately RMB0.7 million (2016: fair value loss of RMB0.7 million) and loss on disposal of property, plant and equipment decreased to RMB82,000 (2016: RMB606,000).

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 14.9% (2016: 13.7%) of revenue for the year ended 31 December 2017. Increase in distribution costs was mainly due to increase in sales of asphalt mixing plant through distributors during the year.

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses, legal and professional fees, provision for bad debts and depreciation. Administrative expenses decreased to RMB84.7 million (2016: RMB105.3 million) by approximately RMB20.6 million, primarily due to the decrease in net provision for impairment of trade receivables of approximately RMB19.2 million.

Finance Income/(Costs), net

Finance income/(costs), net mainly included bank interest income and interest income on unwinding discounted trade receivables offset by interest expenses on interest-bearing bank borrowings. Finance income was recorded during the year was mainly due to the increase in interest income on unwinding discounted trade receivables and decrease in interest expenses on interest-bearing bank borrowings.

Income Tax Expense

Increase in tax expense for the year ended 31 December 2017 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%.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company amounted to approximately RMB21.2 million for the year ended 31 December 2017 while loss attributable to owners of the Company amounted to approximately RMB28.5 million for the year ended 31 December 2016. The overall increase in net profit was mainly due to increase in revenue and decrease of net provision for impairment of trade receivables and partially offset by increase in distribution costs.

Working Capital Management

Net current assets of the Group amounted to RMB520,337,000 (2016: RMB560,055,000) with a current ratio of 2.8 (31 December 2016: 3.0) times as at 31 December 2017.

Inventories increased by RMB49,687,000 from RMB168,763,000 as at 31 December 2016 to RMB218,450,000 as at 31 December 2017. The increase in inventory was mainly due to the increase in purchases of raw materials to meet the increase in sales demand. Inventory turnover days was 255 for the year ended 31 December 2017, representing a decrease of 27 days as compared to 282 days for the year ended 31 December 2016. The decrease in inventory turnover days was mainly because of increase in finished goods delivered and accepted by customers during the year.

Trade and bills receivable increased by RMB9,422,000 from RMB384,224,000 as at 31 December 2016 to RMB393,646,000 as at 31 December 2017, mainly due to increase in revenue during the year. Trade and bills receivable turnover days was 316 days for the year ended 31 December 2017, representing a decrease of 122 days as compared to 438 days for the year ended 31 December 2016. Since 2016, the Group experienced delay in payments from some of the PRC customers because the government fundings for the PRC road construction and maintenance projects have not been available as planned. The Group believes that this was an industry wide phenomenon in the PRC and 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. The decrease in trade and bills receivable turnover days during the year was mainly because of the improvement in overall settlement from customers, primarily resulted from (1) increase in overseas sales of asphalt mixing plants of which majority of contract sum were settled prior to shipment; (2) certain PRC customers opted for finance lease service; (3) more timely settlement from PRC customers for the sales contracts entered into during the year; and (4) increase in deposits placed by the customers.

Trade and bills payable increased by RMB8,422,000, from RMB158,247,000 as at 31 December 2016 to RMB166,669,000 as at 31 December 2017 which was in line with the increase in purchase of raw materials during the year. Trade and bills payable turnover days was 190 for the year ended 31 December 2017 (2016: 208 days), representing a decrease of 18 days. The decrease in trade and bills payable turnover days was mainly because of faster payment to suppliers to secure the supply of raw materials.

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 enhance returns on financial assets under a prudent and conservative approach.

As at 31 December 2017, the Group had cash and cash equivalents of RMB42,708,000 (31 December 2016: RMB169,261,000) and pledged bank deposits of RMB90,411,000 (31 December 2016: RMB89,031,000). In addition, the Group had interest-bearing bank borrowings of RMB60,150,000 (31 December 2016: RMB63,271,000). 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 bank borrowings divided by equity attributable to the owners of the Company, amounted to 8.1% (31 December 2016: 8.6%).

During the year ended 31 December 2017, the Group recorded a net cash outflow from operating activities of RMB68,552,000 (2016: RMB8,413,000). Net cash used in investing activities amounted to RMB46,697,000 (2016 net cash generated from investing activities: RMB29,931,000) for the year ended 31 December 2017. Net cash used in financing activities for the year ended 31 December 2017 amounted to RMB7,280,000 (2016: RMB32,825,000).

Capital Commitments and Contingent Liabilities

	2017 **RMB'000**	2016 RMB'000
Contracted for	**9,116**	2,250
Authorised but not contracted for	**8,159**	7,955
	17,275	10,205

Certain customers of the Group finance 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 provides guarantees to the third-party leasing companies that in the event of customer default, the third-party leasing companies have the right to demand the Group to repay 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 2017, the Group's maximum exposure to such guarantees was approximately RMB975,000 (31 December 2016: RMB6,634,000).

Pledge of Assets

As at 31 December 2017, property, plant and equipment of RMB45,245,000 (31 December 2016: RMB48,946,000), land use right of RMB5,095,000 (31 December 2016: RMB5,226,000) and bank deposits of RMB90,411,000 (31 December 2016: RMB89,031,000) were pledged for bank loans and bills payable 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 United States 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 purchase of raw materials from overseas.

Significant Investments and Material Acquisitions or Disposals

During the year ended 31 December 2017, the Group did not have any significant investments or material acquisitions or disposals.

Environmental Policy

The Group aims to develop itself into a green company by connecting with the nature, and recognises the impact on the environment and the natural resources in neighboring communities. The Group operates in an environmentally-friendly manner to promote and achieve sustainable development. Its environmental policies and measures reflect its commitment to minimising the environmental impact of its operations. The policies are guided by the following principles: clean production, energy saving, pollution prevention, and continuous improvement. This includes setting consumption targets for energy and resources, analysing processes, as well as formulating management measures to reduce energy and resources consumption to a reasonable level.

Currently, the Group complies with all applicable laws and regulations that have a significant impact on the Group while integrating environmental considerations into the business. The Group also follows the requirements and guidance of the national standard for environmental management systems for continual improvement.

The Group strives to be more consciously aware of the environmental impact of its business decisions and mitigates as much environmental impact as possible during its production process. Its commitment is demonstrated by its preventative and reduction measures. The Group seeks to continue its effort through a progressive and systematic approach and it will continue its effort to be fully aware of its environmental impact, to be a good corporate citizen, and to continue developing the Group in a sustainable manner.

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2017 and up to the date of this Annual Report, to the best knowledge of the Company, the Group has complied with all the relevant laws and regulations in Mainland China and Hong Kong which have a significant impact on the business and operations of the Group, and there is no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Relationships with Stakeholders

The Group aims to align its business strategies with its stakeholders' expectations and concerns. To better understand those expectations and concerns, the Group has to communicate and involve its stakeholders in its decision-making process. During the year ended 31 December 2017, the Group has engaged with its stakeholders on an ongoing basis via various engagement methods, such as online media and Wechat.

Key stakeholder groups include shareholders, employees, customers, suppliers, education and research partners, government and other public bodies, industry associations, and community. The Group continues to expand its stakeholder engagements to suppliers, customers, education and research partners, government and other public bodies, industry associations, and community. This will include surveys, focus group discussions, and other engagement activities. The engagement would allow the Group to better understand stakeholders' views on the Company's sustainable development. The findings will further enhance the sustainability of the Group.

Principal Risks and Uncertainties

The Board is ultimately responsible for ensuring that the risk management practices of the Group are sufficient to mitigate the risks present in our businesses and operations as efficiently and effectively as possible. The Group's financial position, operations, business and prospects may be affected by the following identified principal risks and uncertainties. The Group adopts risk management policies, measures and monitoring systems to pre-empt and contain exposures associated with the identified risks.

Industry risk in the PRC

The Group generates a substantial portion of revenue from the sales of asphalt mixing plants for road construction and maintenance projects in the PRC. The asphalt mixing plants are mainly used in the road construction and maintenance sectors and the development of our business depends on the sustained growth of these sectors in the PRC. Factors such as consumer, corporate and government spending, business investment, volatility and strength of the capital markets and inflation in the PRC affect the business and economic environment we are in, which affect our revenue and profitability.

If the PRC economy does not grow at the expected rate or the PRC government's spending on road construction and maintenance work declines, this could lead to less expected business and construction activity nationwide. If there are changes in the PRC laws, regulations or policies which lead to a decline in investment in infrastructure, road construction and maintenance, the demand for our products and services may decrease.

Industry risk in the overseas market

As part of the expansion strategy, the Group plans to increase our business in the overseas market by increasing the sales of our asphalt mixing plants and related services to customers in overseas markets such as India, Southeast Asia and Middle East countries, which have strong demands for asphalt mixing plants. The growth of our overseas sales of asphalt mixing plants is largely dependent on the demand for our products arising from the road construction and maintenance projects in the overseas markets.

If there is a decrease in investment in road construction and maintenance projects or a slower-than-expected economic growth and unfavorable macroeconomic conditions in these overseas markets, this could lead to less expected demand for our products and services.

Financial credit risk

The Group is subject to the risk that trade and bills receivable may not be collected in a timely manner and some of our customers may delay payment of the outstanding balances after due dates due to various reasons beyond our control, such as slow settlement of government funding for PRC road construction or maintenance projects that our customers participated in, and changes in implementation of infrastructure projects against original plans. There is credit risk exposure as provision for impairment losses may be increased because of the above-mentioned factors and other factors such as payment patterns of the customers and macroeconomic conditions. The Group continues to enhance and strengthen the credit control and collection policies to minimise the financial credit risk.

Environmental compliance risk

The PRC government has in recent years been increasingly stringent in its laws relating to environmental protection, for example, imposing carbon restrictions in the industrial and manufacturing sectors. The Group has environmental compliance policy and procedures in place to ensure the discharge of pollutants and wastes and other activities are in compliance with the relevant laws and regulations. Because of the increasingly stringent laws and regulations, our operating costs may be increased to ensure consistent compliance. We may also incur additional operating costs in order to update our waste discharge testing systems, improve our environmental protection technology and processes, and implement additional measures and assign more personnel to ensure that we comply with the PRC environmental laws.

Quality control risk

The performance, quality and safety of our products are critical to our business and development. The Group has established and maintains stringent quality control standards and internal inspection procedures. The effectiveness of our quality control system is determined by various factors, including the implementation of quality standards, quality of training programs and the adherence by our employees to our quality control policies and guidelines. In addition, our production output is highly dependent upon our quality control system and reliable and sufficient sources of high quality raw materials, parts and components. While we are able to produce the core parts and components for our products, our customers from time to time will request that we procure certain non-key parts, components and other ancillary materials for their customized products from a limited number of domestic or overseas suppliers. The Group has stringent quality control standards and measures to ensure parts, components and ancillary materials will be manufactured in accordance with our internal quality standards.

Employees and Remuneration Policy

As at 31 December 2017, the Group had approximately 445 (2016: 438) employees. The total staff costs for the year ended 31 December 2017 amounted to approximately RMB62,852,000 (2016: RMB63,802,000).

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 on 6 May 2015, 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. No option has been granted during the year.

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 2017, the unutilised proceeds were deposited in banks in Hong Kong and China.

The Company announced on 1 March 2017 for the change of proposed use of the net proceeds. For details, please refer to the announcement published on 1 March 2017. 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 2017:

	Original allocation RMB' million	**Revised allocation as at 1 March 2017** RMB' million	**Utilised amount as at 1 March 2017** RMB'million	**Unutilised amount as at 1 March 2017** RMB'million	**Utilised amount as at 31 December 2017** RMB' million	**Unutilised amount as at 31 December 2017** RMB' million
Expansion of manufacturing facilities						
Acquisition of land	39.6	–	–	–	–	–
Development and construction of the manufacturing facilities	65.9	31.5	21.5	10.0	31.5	–
Purchase equipment for the manufacturing facilities	26.4	7.2	2.2	5.0	4.4	2.8
Research and development	52.8	52.8	24.3	28.5	39.4	13.4
Development of new business	26.4	72.0	21.1	50.9	60.6	11.4
Expansion of the sales and distribution networks and promotional activities	26.4	26.4	13.3	13.1	21.4	5.0
Working capital and general corporate purposes	26.4	74.0	26.4	47.6	74.0	–
	263.9	263.9	108.8	155.1	231.3	32.6

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Choi Hung Nang, aged 79, is our co-founder, chairman and executive Director. He was appointed as an executive Director on 11 September 2014. He is primarily responsible for supervising the operations and planning the business and marketing strategies of our Group. Mr. Choi established our Group in February 1999 and has been the chairman and director of Langfang D&G Machinery Technology Company Limited ("Langfang D&G") since June 2011. He is also a director of certain entities of the Group.

Mr. Choi graduated from the Changsha Railway Institute, Hunan Province (currently known as Central South University) with a bachelor's degree in railway construction in July 1963. In April 2012, he was awarded the outstanding alumni award from Central South University.

Prior to founding our Group, Mr. Choi had been engaged in the import and distribution of European and American branded specialized engineering equipment in Hong Kong and the PRC for over 12 years.

Mr. Choi is the father of Ms. Glendy Choi and Mr. Derek Choi and the brother of the father-in-law of Mr. Liu Tom Jing-zhi.

Ms. Choi Kwan Li, Glendy, aged 47, is our executive Director and chief executive officer. She was appointed as an executive Director on 11 September 2014. She is primarily responsible for overseeing the corporate management of our Group and the overall management and implementation of business and marketing strategies and plans. Ms. Glendy Choi has over 19 years of experience in the trading and manufacturing of specialized engineering equipment. She was appointed as a director and general manager of Langfang D&G in June 2009. She was also appointed as the legal representative of Langfang D&G in June 2011. She is also a director of certain entities of the Group.

Ms. Glendy Choi was awarded a master of business administration in marketing. She is a Fellow Certified Risk Planner of The Institute of Crisis and Risk Management. In November 2014, Ms. Glendy Choi was admitted as a fellow member of The Hong Kong Institute of Directors. In November 2015, Ms. Glendy Choi was admitted as a member of the Young Presidents' Organization ("YPO") – World Presidents' Organization and was appointed as the Executive Committee Member of YPO Sea Dragon Chapter in July 2016. She was appointed as the Learning Officer of YPO Sea Dragon Chapter for 2018 to 2019. In April 2016, Ms. Glendy Choi was admitted as a member of the Hong Kong Professionals and Senior Executives Association and was appointed as a Voting Member in November 2017. In December 2016, Ms. Glendy Choi was admitted as a member of the Hong Kong Young Industrialists Council and was appointed as a Committee Member in October 2017.

Ms. Glendy Choi is one of the awardees of the Young Industrialist Awards Hong Kong 2016 and has been awarded the 7th Asia Pacific Entrepreneurship Awards 2016, Hong Kong Chapter by Enterprise Asia. She was titled by the Hebei Committee of the Communist Party of China and the Hebei Provincial People's Government as one of the Hundred High-tech Private Entrepreneurs in Hebei Province in December 2014 and was titled as "100 Most Influential Persons of China Construction Machinery Industry" in September 2017.

Ms. Glendy Choi is the daughter of Mr. Choi Hung Nang, the sister of Mr. Derek Choi and the cousin-in-law of Mr. Liu Tom Jing-zhi.

Mr. Choi Hon Ting, Derek (formerly known as Choi Kwan Wai, Derek), aged 49, is our executive Director. He was appointed as an executive Director on 11 September 2014. Mr. Derek Choi has over 26 years of experience in the trading of specialized engineering equipment. He is primarily responsible for overseeing the strategic business development of our Group. Mr. Derek Choi has been appointed as a director of Langfang D&G since June 2011. He is also a director of certain entities of the Group.

Mr. Derek Choi was awarded a bachelor's degree in agricultural engineering from Purdue University in May 1991. Mr. Derek Choi has been an executive council member of the China New Energy Chamber of Commerce since 2012 and is the Immediate Past Chairman and Executive Subcommittee Member of the International Society of Trenchless Technologies. Mr. Derek Choi is a founding member of the China Hong Kong Society of Trenchless Technologies and served as vice-chairman, chairman and executive secretary from 2002 to 2004. Mr. Derek Choi has been admitted as a fellow member of the Hong Kong Institute of Directors since February 2005. Mr. Derek Choi has been appointed as an independent non-executive director of HM International Holdings Limited (Hong Kong stock code: 8416) since 15 December 2016. He was an independent non-executive director of IPE Group Limited 國際精密集團有限公司* (Hong Kong stock code: 929) from 23 June 2004 to 2 June 2017.

Mr. Derek Choi is the son of Mr. Choi Hung Nang, the brother of Ms. Glendy Choi and the cousin-in-law of Mr. Liu Tom Jing-zhi.

Mr. Liu Tom Jing-zhi, aged 48, is our executive Director and chief operating officer. He was appointed as an executive Director on 11 September 2014. He is primarily responsible for overseeing daily operations of manufacturing facilities and the implementation of business strategies and plans of our Group. Mr. Liu has over 14 years of experience in corporate management and business operations. He joined our Group in August 2006 as the director and deputy general manager of Langfang D&G. He is also a director of certain entities of the Group.

In September 1999, Mr. Liu was awarded a graduate diploma in business administration from the University of Technology Sydney. Mr. Liu was recognized as a Person of Innovation* (創新人物) by the Equipment Management Institute of Hebei Province Innovation Development Committee (河北省工業設備管理創新發展峰會組委會) in June 2012. Since April 2013, Mr. Liu has been appointed as a member of the Sixth Committee of Chinese People's Political Consultative Conference, Langfang city (中國人民政治協商會議廊坊市第六屆委員會) for a term of 5 years.

Mr. Liu is the son-in-law of Mr. Choi Hung Nang's elder brother and the cousin-in-law of Ms. Glendy Choi and Mr. Derek Choi.

With effect from 1 January 2018, the emolument of Mr. Liu for handling the operations matters of the Company has been increased from HK$70,000 to HK$80,000 per month.

Mr. Lao Kam Chi, aged 56, is our executive Director and general manager (sales and marketing). He is primarily responsible for managing and implementing sales and marketing strategies. Mr. Lao has over 30 years of experience in sales and marketing. Mr. Lao joined our Group in October 2002 as the general manager of the sales and marketing team in Beijing D&G Machinery Company Limited* (北京德基機械有限公司). He has been a director of Langfang D&G since June 2011, and the general manager of our sales and marketing centre since August 2009.

In July 1982, Mr. Lao was awarded a bachelor's degree in engineering from Southwest Jiaotong University (西南交通大學), China.

With effect from 1 January 2018, the emolument of Mr. Lao for handling the operations matters of the Company has been increased from HK$65,000 to HK$70,000 per month.

* *For identification purpose only*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Chan Lewis (formerly known as Chan Yeung), aged 47, was appointed as a non-executive Director on 15 December 2014. Mr. Chan is the managing partner of Maunakai Capital Partners (Hong Kong) Limited. He is also an executive director of DT Capital Limited (formerly known as Incutech Investments Limited) (Hong Kong stock code: 356). Mr. Chan was appointed as an independent non-executive director of Yuk Wing Group Holdings Limited (Hong Kong stock code: 1536) on 15 December 2016. He has over 18 years of experience in asset management and investment research. Mr. Chan received his bachelor's degree in economics from the University of Chicago in June 1994 and his master of arts from Columbia University in May 1996. Mr. Chan further obtained his Ph.D. from Harvard University in June 2000.

Mr. Chan was a winner of the Fama-DFA Prize of the Best Papers published in 2003 in the Journal of Financial Economics and is also a research fellow at The China Centre for Financial Research at Tsinghua University. Mr. Chan currently serves as a member of the Admissions, Budgets and Allocations Committee of the Community Chest of Hong Kong.

Mr. Alain Vincent Fontaine, aged 63, obtained a bachelor's degree in electrical engineering from the University of Sherbrooke in Canada in June 1979. He has been a member of the Order of Engineers of Québec since January 1980.

Mr. Fontaine serves as an executive director and the vice-chairman of Hong Kong Venture Capital and Private Equity Association. In 2000, he founded Investel Asia, a venture capital and private equity firm and served as its managing director from January 2004 to December 2006. He was the chief executive officer of Newcom LLC from January 2007 to September 2008. Mr. Fontaine served various positions within the BCE Inc. group, a communications group in Canada, including Bell Canada, Bell Ardis and Tata Cellular, for approximately 16 years of his career. Since September 2012, Mr. Fontaine has also been a member of the advisory board of Ocean Equity Partners Fund L.P., an indirect substantial shareholder interested in 50,304,000 shares of the Company, representing approximately 8.11% of the issued share capital of the Company. Mr. Fontaine has also been acting as a non-executive director of Tsaker Chemical Group Limited (Hong Kong stock code: 1986) since April 2015. He was an independent director of China Lending Corporation, a company listed on NASDAQ (ticker: CLDC) from July 2016 to 29 December 2017.

Mr. Fontaine is responsible for providing advice on corporate governance and internal control matters of the Group.

Independent Non-executive Directors

Mr. Law Wang Chak, Waltery, aged 54, was appointed as our independent non-executive Director on 24 April 2015. Mr. Law is the chairman of our Audit Committee and a member of each of our Risk Management Committee and Remuneration Committee.

Mr. Law is currently a senior vice president of the finance and corporate development of Gold Peak Industries (Holdings) Limited, a company listed on the Hong Kong Stock Exchange (Hong Kong stock code: 0040). He has over 30 years of experience in financial audit, financial due diligence reviews, mergers and acquisitions, corporate restructuring, accounting and corporate finance advisory.

Since September 2014, Mr. Law has been an independent non-executive director, chairman of the audit committee, and a member of each of the remuneration committee and nomination committee of Orient Victory Travel Group Company Limited (formerly known as Orient Victory China Holdings Limited) (Hong Kong stock code: 265). Since November 2016, Mr. Law has been a non-executive director of In Technical Productions Holdings Limited (Hong Kong stock code: 8446). Since November 2017, Mr. Law has been an independent non-executive director, chairman of the audit committee, and a member of the nomination committee of Vicon Holdings Limited (Hong Kong stock code: 3878). Since November 2017, Mr. Law has been an independent non-executive director, chairman of the audit committee, and a member of each of the remuneration committee and nomination committee of Solis Holdings Limited (Hong Kong stock code: 2227).

Previously, Mr. Law was an executive partner of Profundas Capital Limited, a private equity and investment advisory firm from December 2010 to January 2018 and had been the chief financial officer and non-executive director of Nine Dragons Paper (Holdings) Limited (Hong Kong stock code: 2689), from June 2004 to July 2008 and from August 2008 to October 2008, respectively. Mr. Law also served in different key roles such as chief financial officer and vice president of the finance department in four other companies between December 1992 and May 2004, all of which were listed on the main board of the Hong Kong Stock Exchange at the relevant time. Mr. Law had worked in the audit division of Coopers & Lybrand (currently known as PricewaterhouseCoopers) between August 1987 and November 1992.

Mr. Law was admitted as a fellow of both the Association of Chartered Certified Accountants (formerly known as Chartered Association of Certified Accountants) in the United Kingdom in October 1995 and the Hong Kong Society of Accountants (currently known as Hong Kong Institute of Certified Public Accountants) in February 1998. Mr. Law is currently registered as a Certified Public Accountant (Practising) with the Hong Kong Institute of Certified Public Accountants. Mr. Law was also admitted as a fellow of the Institute of Chartered Accountants in England and Wales in July 2017.

Mr. Law graduated from the London School of Economics and Political Science, the University of London with a bachelor's degree in economics in August 1991 and a master's degree in financial economics in December 1995.

Mr. Li Zongjin, aged 65, was appointed as our independent non-executive Director on 24 April 2015. He has been the Chair Professor of the Institute of Applied Physics and Materials Engineering at the University of Macau since January 2017. Mr. Li graduated from Zhejiang University, China with a bachelor's degree in structure engineering in 1982. Mr. Li further obtained his master of science in December 1990 and his Ph.D. in December 1993 from Northwestern University, United States of America. Mr. Li is a fellow of the American Concrete Institute and was a member of the Hong Kong Institute of Engineers.

Mr. Li has over 28 years of experience in the field of civil and structural engineering and has published 6 books in the area of materials engineering. In August 2008, Mr. Li was appointed as a chief scientist under the National Basic Research Program of China (973 Project). Mr. Li's research project on geopolymer-based structural materials preparation technology was awarded second prize by the PRC Ministry of Education in January 2010. In July 2017, Mr. Li retired from the Department of Civil and Environmental Engineering of the Hong Kong University of Science and Technology where he was a professor for 23 years.

Currently, Mr. Li is a director of Brilliant Concept International Group Limited.

Mr. Lee Wai Yat, Paco, aged 52, was appointed as our independent non-executive Director on 24 April 2015. He has been the general manager (business development, global frozen and related business) of Thai Union Group Public Company Limited (formerly known as Thai Union Frozen Products Public Company Limited) (Stock Exchange of Thailand code: TU) since February 2017. He is also the non-executive director of Avanti Feeds Limited (listed on the Bombay Stock Exchange and National Stock Exchange of India Limited, ticker: AVANTI) and Pakfood Public Company Limited (Stock Exchange of Thailand code: PPC and delisted in November 2013).

Mr. Lee has over 15 years of experience in corporate finance and management. Mr. Lee graduated from Purdue University in May 1991 with a bachelor of science in management. Mr. Lee obtained his master of business administration from the Sasin Graduate Institute of Business Administration (a joint program between the Kellogg School of Management of Northwestern University, the Wharton School of University of Pennsylvania, and Chulalongkorn University) in Bangkok in March 1993.

Mr. Lee completed the Director Certification Program held by the Thai Institute of Directors in June 2012. In 2014, Mr. Lee was awarded as the 3rd Best Chief Financial Officer in Thailand by FinanceAsia's annual Best Managed Companies Poll.

Mr. Fok Wai Shun, Wilson, aged 43, was appointed as our independent non-executive Director on 24 April 2015. He is the managing director of Challenge Capital Management Limited. Mr. Fok has over 18 years of experience in the fields of corporate finance, accounting and investment banking. Mr. Fok holds a double bachelor degree in commerce and in laws from the University of Melbourne. Mr. Fok was admitted as a solicitor and barrister of the Supreme Court of Victoria, Australia in 1998 and is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of Certified Public Accountants, Australia.

Mr. Fok previously worked in the Assurance and Corporate Finance and Recovery departments of PricewaterhouseCoopers from 2000 to 2004. From 2004 to 2010, Mr. Fok served in various positions at the investment banking division of Piper Jaffray Asia Limited. From 2010 to 2014, Mr. Fok served at the corporate finance division of CCB International Capital Limited where his last position was executive director.

Senior Management

Mr. Tsang Chin Pang, aged 39, joined the Group in July 2016 and was appointed as the chief financial officer and company secretary of the Group on 30 November 2016. He is responsible for the financial planning and management, tax, corporate finance and company secretarial matters of the Group. Mr. Tsang graduated from the Hong Kong University of Science and Technology with a bachelor of business administration in finance. Mr. Tsang is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tsang has over 16 years of experience in the field of finance and accounting. Prior to joining the Group, Mr. Tsang worked in the Assurance and Advisory Business Services department of Ernst & Young from September 2001 to February 2004 and PricewaterhouseCoopers from February 2004 to July 2007, respectively. Mr. Tsang also worked in the Mergers and Acquisitions Transaction Services department of Deloitte from September 2007 to February 2011. Mr. Tsang was the chief financial officer and company secretary of Realord Group Holdings Limited (Hong Kong stock code: 1196) for the period from February 2011 to July 2016.

Corporate Governance Practices

The Board has committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, to enhance corporate value, to formulate its business strategies and policies, and to enhance its transparency and accountability.

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

In the opinion of the Directors, throughout the year ended 31 December 2017, the Company has complied with all the code provisions as set out in the CG Code.

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.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2017.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

Board of Directors

The Board currently comprises eleven members, consisting of five executive Directors, two non-executive Directors and four independent non-executive Directors. The executive Directors, non-executive Directors and independent non-executive Directors during the year ended 31 December 2017 were as follows:

Executive Directors:
Mr. Choi Hung Nang *(Chairman of the Board and chairman of the Nomination Committee)*
Ms. Choi Kwan Li, Glendy *(Chief Executive Officer, chairman of the Risk Management Committee and member of the Remuneration Committee)*
Mr. Choi Hon Ting, Derek
Mr. Liu Tom Jing-zhi *(Chief Operating Officer and member of the Risk Management Committee)*
Mr. Lao Kam Chi
Mr. Yu Ronghua *(passed away on 13 January 2018)*

Non-executive Directors:
Mr. Chan Lewis
Mr. Alain Vincent Fontaine

Independent Non-executive Directors:

Mr. Law Wang Chak, Waltery *(Chairman of the Audit Committee and member of the Remuneration Committee and Risk Management Committee)*
Mr. Li Zongjin *(Member of the Audit Committee and Nomination Committee)*
Mr. Lee Wai Yat, Paco *(Member of the Audit Committee and Nomination Committee)*
Mr. Fok Wai Shun, Wilson *(Chairman of the Remuneration Committee and member of the Audit Committee and Risk Management Committee)*

The biographical information of the Directors as well as the relationships between the members of the Board are set out under "Biographical Details of Directors and Senior Management" on pages 18 to 22 of this Annual Report.

Chairman and Chief Executive Officer

The positions of chairman of the Board (the "Chairman") and chief executive officer of the Company (the "Chief Executive Officer") are held by Mr. Choi Hung Nang and Ms. Choi Kwan Li, Glendy respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

During the year ended 31 December 2017, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 of the CG Code states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive Directors, non-executive Directors and independent non-executive Directors (except Mr. Alain Vincent Fontaine) has entered into a service agreement with the Company for an initial term of three years commencing from 27 May 2015. Each of their appointments is subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the articles of association of the Company (the "Articles of Association") and the Listing Rules.

Mr. Alain Vincent Fontaine, a non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 15 August 2016. His appointment is subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

In accordance with the Articles of Association, every Director shall be subject to retirement at an annual general meeting of the Company at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board takes decisions objectively in the interests of the Company.

All Directors, including the non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities.

Mr. Choi Hung Nang (Chairman) is the father of Ms. Choi Kwan Li, Glendy (Chief Executive Officer) and Mr. Choi Hon Ting, Derek and the brother of the father-in-law of Mr. Liu Tom Jing-zhi. Apart from the aforesaid, there are no other financial, business, family or other material/relevant relationships among members of the Board.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive a comprehensive, formal and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2017, all Directors had provided to the Company their training records. All Directors participated in continuous professional development exercise by way of attending seminars/conferences/forums organized by professional organisations and keep themselves updated on the roles, functions and duties of a listed company director. In addition, relevant reading materials including directors' manual, legal and regulatory update and seminar handouts have been provided to the Directors for their reference and studying. The trainings attended by the Directors are in the areas of corporate governance, regulatory update, financial management, director's duties and responsibilities, risk management and internal control, environmental, social and governance, business skills and knowledge, etc. The Company is of the view that all Directors have complied with code provision A.6.5 of the CG Code.

Board Committees

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

Save for the Risk Management Committee, the majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this Annual Report.

Audit Committee

The Audit Committee currently comprises four members, namely, Mr. Law Wang Chak, Waltery (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson (including at least one independent non-executive Directors with appropriate professional qualifications or accounting or related financial management expertise), all are independent non-executive Directors. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditor, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2017, the Audit Committee held two meetings to review annual financial results and report in respect of the year ended 31 December 2016, interim financial results and report in respect of the period ended 30 June 2017, significant issues on the financial reporting and compliance procedures, the effectiveness of the internal control and risk management systems and internal audit function, scope of work and appointment of external auditor and arrangements for employees to raise concerns about possible improprieties. The attendance records of the Audit Committee are set out under "Attendance Records of Directors and Committee Members" of this Annual Report.

The Audit Committee also met the external auditor twice without the presence of the executive Directors.

Remuneration Committee

The Remuneration Committee currently comprises three members, namely, Mr. Fok Wai Shun, Wilson (Chairman) (independent non-executive Director), Ms. Choi Kwan Li, Glendy (executive Director) and Mr. Law Wang Chak, Waltery (independent non-executive Director).

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the year ended 31 December 2017, the Remuneration Committee held one meeting to make recommendations to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Directors and senior management and other related matters. The attendance records of the Remuneration Committee are set out under "Attendance Records of Directors and Committee Members" of this Annual Report.

Details of the remuneration of the senior management for the year ended 31 December 2017 are set out in notes 8(b) and 35 in the "Notes to the Financial Statements" of this Annual Report.

Nomination Committee

The Nomination Committee currently comprises three members, namely, Mr. Choi Hung Nang (Chairman) (executive Director), Mr. Li Zongjin and Mr. Lee Wai Yat, Paco (independent non-executive Directors).

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Company's Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character and integrity, qualifications, experience, time commitments, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the year ended 31 December 2017, the Nomination Committee held one meeting to review the structure, size and composition of the Board, the independence of the independent non-executive Directors, the Company's Board Diversity Policy and to consider the qualifications of the retiring Directors standing for election at the annual general meeting of the Company. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained. The attendance records of the Nomination Committee are set out under "Attendance Records of Directors and Committee Members" of this Annual Report.

Risk Management Committee

The Risk Management Committee currently comprises five members, namely, Ms. Choi Kwan Li, Glendy (Chairman) (executive Director), Mr. Liu Tom Jing-zhi (executive Director), Mr. Law Wang Chak, Waltery, Mr. Fok Wai Shun, Wilson (independent non-executive Directors) and Mr. Tsang Chin Pang (chief financial officer).

The principal duties of the Risk Management Committee include reviewing and assessing the effectiveness of the Company's risk management system and discussing the risk management system with management to ensure that management has performed its duty to have effective risk management system.

During the year ended 31 December 2017, the Risk Management Committee held four meetings to review and make recommendation on the adequacy and effectiveness of the Group's risk management and internal control systems. The attendance records of the Risk Management Committee are set out under "Attendance Records of Directors and Committee Members" of this Annual Report.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year ended 31 December 2017, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Records of Directors and Committee Members

The attendance records of each Director at the Board and Board committee meetings and the annual general meeting of the Company held during the year ended 31 December 2017 are set out in the table below:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee	Annual General Meeting
Mr. Choi Hung Nang	5/5	–	–	1/1	–	1/1
Ms. Choi Kwan Li, Glendy	5/5	–	1/1	–	4/4	1/1
Mr. Choi Hon Ting, Derek	5/5	–	–	–	–	1/1
Mr. Liu Tom Jing-zhi	4/5	–	–	–	4/4	1/1
Mr. Lao Kam Chi	4/5	–	–	–	–	1/1
Mr. Yu Ronghua *(passed away on 13 January 2018)*	1/5	–	–	–	–	0/1
Mr. Chan Lewis	4/5	–	–	–	–	0/1
Mr. Alain Vincent Fontaine	4/5	–	–	–	–	1/1
Mr. Law Wang Chak, Waltery	4/5	2/2	1/1	–	4/4	1/1
Mr. Li Zongjin	2/5	0/2	–	0/1	–	0/1
Mr. Lee Wai Yat, Paco	4/5	2/2	–	1/1	–	1/1
Mr. Fok Wai Shun, Wilson	4/5	2/2	1/1	–	4/4	1/1

Apart from regular Board meetings, the Chairman also held one meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year ended 31 December 2017.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 45 to 48 of this Annual Report.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditor.

Auditor's Remuneration

An analysis of the fees charged by the external auditor of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended 31 December 2017 is set out below:

Service Category	Fees RMB'000
Audit Services	1,734
Non-audit Services	
– Agreed upon procedures on preliminary announcement of annual results	74
	1,808

Risk Management and Internal Controls

Role of the Board

The Board acknowledges that it is responsible for reviewing the effectiveness of the risk management and internal control systems. The Board has the overall responsibility for evaluating and determining the nature and extent of the risks taken by the Group to achieve its strategic business objectives. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has reviewed the risk management and internal control systems of the Group and considered them to be effective and adequate and did not note any material deviation during the year ended 31 December 2017. The management has confirmed to the Board, the Audit Committee and the Risk Management Committee on the effectiveness of the risk management and internal control systems of the Company for the year ended 31 December 2017.

Framework of the Risk Management and Internal Control Systems

The Group's risk governance structure and the main responsibilities of each level of the structure are summarised below:

Board

- Determines the business strategies and objectives of the Group and evaluates and determines the nature and extent of risks willing to take in order to achieve the Group's strategic objectives;
- Ensures the Group establishes and maintains appropriate and effective risk management and internal control systems; and
- Oversees the design, implementation and monitoring of the risk management and internal control systems of the Group.

Audit Committee and Risk Management Committee

- Assist the Board to perform its duties on reviewing the Group's risk management and internal control systems;
- Oversee the Group's risk management and internal control systems on an on-going basis;
- Review the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance controls;
- Ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions; and
- Consider major findings on risk management and internal control matters, and report and make recommendations to the Board.

Management

- Designs, implements and maintains appropriate and effective risk management and internal control systems;
- Identifies, evaluates and manages the risks that may potentially impact the major processes of the operations;
- Monitors risks and takes measures to mitigate risks in day-to-day operations;
- Gives prompt responses to, and follow up the findings on risk management and internal control matters raised by the internal audit team or the external risk management and internal control review adviser; and
- Provides confirmation to the Board, the Audit Committee and the Risk Management Committee on the effectiveness of the risk management and internal control systems.

Process Used to Review the Effectiveness of the Risk Management and Internal Control Systems

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. The management, in coordination with department heads, assessed the likelihood of risk occurrence, provided remediation plans, monitored the risk management progress, and reported to the Audit Committee, the Risk Management Committee and the Board on all findings and the effectiveness of the risk management and internal control systems.

The processes used to identify, evaluate and manage significant risks by the Group are summarized as follows:

Risk Identification:

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment:

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact on the business and the likelihood of their occurrence.

Risk Response:

- Prioritizes the risks by comparing the results of the risk assessment; and
- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting:

- Performs on-going and periodic monitoring of the risks and ensures that appropriate internal control processes are in place;
- Revises the risk management strategies and internal control processes in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

Internal Audit Function

The Group has its internal audit function to conduct the annual review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2017. Such review is conducted annually. The scope of review was previously determined and approved by the Audit Committee and Risk Management Committee. Major findings and areas for improvement have been reported to the Audit Committee and the Risk Management Committee. All recommendations from the risk management and internal control review adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Group therefore considered that the risk management and internal control systems are effective and adequate.

Whistleblowing Policy

The Company is committed to achieving and maintaining the highest possible standards of openness, probity and accountability. A whistleblowing policy is in place to create a system for the employees to raise concerns, in confidence, to the Audit Committee and the Board about possible improprieties relating to the Company. The identity of the whistleblower will be treated with the strictest confidence.

Disclosure Policy

The disclosure policy is in place to ensure potential inside information is being captured and confidentiality of such information is being maintained until consistent and timely disclosure is made in accordance with the Listing Rules. The policy regulates the handling and dissemination of inside information, which includes:

- Designated reporting channels from different operations informing any potential inside information to designated departments;
- Designated persons and departments to determine further escalation and disclosure as required; and
- Designated persons authorised to act as spokespersons and respond to external enquiries.

Company Secretary

Mr. Tsang Chin Pang, who is also the chief financial officer of the Company, was appointed by the Board as the company secretary of the Company with effect from 30 November 2016. The role of the company secretary is to ensure good information flow within the Board and between the Board and senior management, provide advice to the Board in relation to directors' obligations under the Listing Rules and applicable laws and regulations and assist the Board in implementing corporate governance practices. In accordance with Rule 3.29 of the Listing Rules, the Company has received training information from Mr. Tsang, pursuant to the content of which, the Company confirmed that Mr. Tsang had taken not less than 15 hours of relevant professional trainings to update his skills and knowledge during the year ended 31 December 2017.

Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of Hong Kong Exchanges and Clearing Limited after each general meeting.

Procedure for shareholders to convene an extraordinary general meeting

Any one or more shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. This meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedure for shareholders to propose a person for election as a Director at a general meeting

After the publication of the notice of a general meeting by the Company, according to Article 85 of the Articles of Association, if a shareholder of the Company (other than the person to be proposed) duly qualified to attend and vote at an annual general meeting of the Company wishes to propose a person (the "Candidate") for election as a Director at the general meeting, he/she shall deposit a written notice (the "Notice") at the Company's registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands, its principal place of business in Hong Kong at 7/F, Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong or at the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. The Notice (a) must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (b) must be signed by the shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information. The period for lodgement of the Notice shall commence on the date after the despatch of the notice of the general meeting and end no later than seven days prior to the date of such general meeting. In order to allow the Company's shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director, shareholders who wish to make the proposal are urged to submit and lodge the Notice as early as practicable before the relevant general meeting.

Procedure for putting forward enquiries

For enquiries about shareholdings, shareholders should direct their enquiries to the Company's branch share registrar, Tricor Investor Services Limited, via its online holding enquiry service at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or call its hotline at (852) 2980 1333, or go in person to its public counter at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

For enquiries about corporate governance or other matters to be put to the Board and the Company, the Company will not normally deal with verbal or anonymous enquiries. Shareholders may send written enquiries to the Company, for the attention of Company Secretary, by email: ir@dgtechnology.com, by fax: (852) 2541 9078, or mail: 7/F, Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong.

Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors/Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) will be available to meet shareholders and answer their enquiries.

To promote effective communication, the Company maintains a website at www.dgtechnology.com where up-to-date information and updates on the Company's financial information, corporate governance practices and other information are posted.

There was no change in the Articles of Association during the year ended 31 December 2017. An up-to-date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Deed Of Non-Competition Undertakings

As disclosed in the Company's prospectus (the "Prospectus") dated 14 May 2015, each of Prima DG Investment Holding Company Limited (翰名投資控股有限公司), Mr. Choi Hung Nang, Ms. Tin Suen Chu, Ms. Choi Kwan Li, Glendy and Mr. Choi Hon Ting, Derek, Controlling Shareholders (as defined in the Prospectus) of the Company, has entered into a deed of non-competition dated 6 May 2015 in favour of the Company (for itself and as trustee for its subsidiaries from time to time).

The Company has received a declaration made by the Controlling Shareholders in compliance with the deed of non-competition for the year ended 31 December 2017.

The independent non-executive Directors have conducted a review on the compliance and enforcement of the deed of non-competition by the Controlling Shareholders for the year ended 31 December 2017.

Compliance with the Sanctions Undertaking

As disclosed in the Prospectus, the Company has, amongst others, undertaken to the Stock Exchange that it would not use the proceeds from the global offering, or any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with any sanctioned country which are prohibited under international sanction laws and regulations or with any sanctioned person (the "Sanctions Undertaking"). To ensure compliance with the Sanctions Undertaking, the Company has ensured that separate books and records are in place to monitor the activities of the proceeds from the global offering.

During the year ended 31 December 2017, the internal control committee of the Company, which members are Mr. Tsang Chin Pang (chief financial officer) and Ms. Ng Po Fung (assistant to the Chief Executive Officer), held a meeting to evaluate the Group from a sanctions risk perspective and to ensure the nature and location of the activities or business, as well as the identity of the counterparties and the products involved, etc., would not violate the Sanctions Undertaking.

The Directors are pleased to present the Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

Principal Place of Business

The Company was incorporated in the Cayman Islands and is domiciled in Hong Kong and its principal place of business in Hong Kong is 7/F, Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong. The Group's principal place of business in the PRC is at No. 12 Yinghua Road, Yongqing Industrial Park, Yongqing County, Langfang City, Hebei Province, the PRC.

Principal Activities and Business Review

The principal activities of the Group are manufacturing, distribution, research and development and operating lease of asphalt mixing plants and provision of machinery finance services. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements. During the year, there was no significant change in the Group's principal activities.

Detailed business review, including further discussions of the risks and uncertainties facing the Group, likely future development of the Group's business, and analysis on the financial key performance indicators, are set out in the Chairman's Statement on pages 4 to 5 of this Annual Report and the Management Discussion and Analysis on pages 6 to 17 of this Annual Report. These discussions form part of this Report of the Directors.

Results and Dividends

The profit of the Group for the year ended 31 December 2017 and the state of affairs of the Company and the Group as at 31 December 2017 are set out in the audited consolidated financial statements on pages 49 to 104 of this Annual Report.

The Directors do not recommend the payment of a final dividend (2016: HK1.8 cents (equivalent to approximately RMB1.60 cents) per ordinary share) for the year ended 31 December 2017. No interim dividend has been declared for the years ended 31 December 2017 and 31 December 2016.

Five Year Financial Summary

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 3 of this Annual Report.

Distributable Reserves

The distributable reserves of the Company as at 31 December 2017 amounted to RMB420,889,000.

Non-current Assets

Details of acquisitions and other movements in non-current assets (including property, plant and equipment, land use right, investment property and intangible assets) during the year are set out in notes 12 to 15 to the financial statements.

Investment Property

Details of the investment property held for development and/or sales and for investment purposes are set out on pages 81 to 82 of this Annual Report.

Share Issued in the Year

Details of the movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

Debentures Issued in the Year

No debentures were issued by the Company during the year ended 31 December 2017.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares of the Company on a pro-rata basis to existing shareholders.

Purchase, Redemption or Sale of 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 2017.

Major Customers and Suppliers

During the year ended 31 December 2017, aggregate sales to the Group's largest and five largest customers accounted for 8.2% (2016: 6.9%) and 22.3% (2016: 26.9%), respectively, of the Group's total revenue for the year.

Aggregate purchases from the Group's largest and five largest suppliers accounted for 4.5% (2016: 3.5%) and 16.6% (2016:16.1%), respectively, of the Group's total purchases for the year ended 31 December 2017. Aggregate purchases from the Group's largest and five largest subcontractors accounted for 6.1% (2016: 5.5%) and 21.2% (2016: 19.3%), respectively, of the Group's total purchases for the year ended 31 December 2017.

At no time during the year have the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers, suppliers and subcontractors.

Relationship with Employees

The Group recognizes employees as the most important assets of the Group. The contribution and support of employees are valued at all times. The Group regularly reviews the remuneration policies according to the market benchmarks, financial results and individual performance of employees. Other staff benefit plans are provided to enhance the employees' loyalty and satisfaction.

Directors

The Directors during the year ended 31 December 2017 and up to the date of this Annual Report were:

Executive Directors
Mr. Choi Hung Nang *(Chairman)*
Ms. Choi Kwan Li, Glendy *(Chief Executive Officer)*
Mr. Choi Hon Ting, Derek
Mr. Liu Tom Jing-zhi
Mr. Lao Kam Chi
Mr. Yu Ronghua *(passed away on 13 January 2018)*

Non-Executive Directors
Mr. Chan Lewis
Mr. Alain Vincent Fontaine

Independent Non-Executive Directors
Mr. Law Wang Chak, Waltery
Mr. Li Zongjin
Mr. Lee Wai Yat, Paco
Mr. Fok Wai Shun, Wilson

The Company has received annual confirmations of independence from each of the independent non-executive Directors, and as at the date of this Annual Report still considers them to be independent.

Pursuant to Article 84 of the Articles of Association, Mr. Lao Kam Chi, Mr. Chan Lewis, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson shall retire from the office by rotation at the forthcoming annual general meeting. All the retiring Directors, being eligible, will offer themselves for re-election.

Biographical Details of Directors and Senior Management

Biographical details of the Directors and the senior management of the Company are set out on pages 18 to 22 of this Annual Report.

Directors' Service Contracts

Each of the executive Directors, non-executive Directors and independent non-executive Directors (except Mr. Alain Vincent Fontaine) has entered into a service agreement with the Company for an initial term of three years commencing from 27 May 2015. Each of their appointments is subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

Mr. Alain Vincent Fontaine, a non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 15 August 2016. His appointment is subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries other than agreements expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' Remuneration

Details of the remuneration of the Directors are set out in note 35 to the financial statements, which are recommended by the Remuneration Committee of the Company with reference to the salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2017, the interests or short positions of the Directors, the chief executives of the Company (the "Chief Executives") and their associates in the shares of the Company (the "Shares"), underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

(i) Interests in Shares and underlying shares

Name of Director	Long/Short position	Type of interest	Number of Shares and underlying shares held	Approximate percentage of shareholding in the Company
Mr. Choi Hung Nang	Long	Interest in controlled corporation(1)	345,696,000	55.74%
	Long	Beneficial owner	6,392,000	1.03%
	Long	Beneficial owner(2)	4,000,000	0.64%
Ms. Choi Kwan Li, Glendy	Long	Beneficial owner	150,000	0.02%
	Long	Beneficial owner(2)	4,000,000	0.64%
Mr. Choi Hon Ting, Derek	Long	Beneficial owner	150,000	0.02%
	Long	Beneficial owner(2)	4,000,000	0.64%
Mr. Liu Tom Jing-zhi	Long	Interest in controlled corporation(3)	13,500,000	2.18%
	Long	Interest of spouse(3)	150,000	0.02%
	Long	Beneficial owner(4)	2,000,000	0.32%
Mr. Lao Kam Chi	Long	Interest in controlled corporation(5)	9,000,000	1.45%
	Long	Beneficial owner(4)	2,000,000	0.32%
Mr. Yu Ronghua *(passed away on 13 January 2018)*	Long	Interest in controlled corporation(6)	13,500,000	2.18%
	Long	Beneficial owner(4)	2,000,000	0.32%
Mr. Chan Lewis	Long	Beneficial owner(7)	300,000	0.05%
Mr. Law Wang Chak, Waltery	Long	Beneficial owner	1,850,000	0.30%
	Long	Beneficial owner(8)	270,000	0.04%
Mr. Li Zongjin	Long	Beneficial owner(7)	300,000	0.05%
Mr. Lee Wai Yat, Paco	Long	Beneficial owner(7)	300,000	0.05%
Mr. Fok Wai Shun, Wilson	Long	Beneficial owner(9)	400,000	0.06%

(ii) Interests in shares and underlying shares of associated corporation

Name of Director	Name of associated corporation	Long/Short position	Type of interest	Approximate percentage of shareholding interest
Mr. Choi Hung Nang	Prima DG Investment Holding Company Limited ("Prima DG")	Long	Beneficial owner	40%
Ms. Choi Kwan Li, Glendy	Prima DG	Long	Beneficial owner	20%
Mr. Choi Hon Ting, Derek	Prima DG	Long	Beneficial owner	20%

Notes:

1. The 345,696,000 Shares were held by Prima DG, which is directly held as to 40% by Mr. Choi Hung Nang. Accordingly, by virtue of the SFO, Mr. Choi Hung Nang is deemed to be interested in all the Shares in which Prima DG is interested.

2. Each of Mr. Choi Hung Nang, Ms. Choi Kwan Li, Glendy and Mr. Choi Hon Ting, Derek was granted 4,000,000 share options during the year ended 31 December 2016 under the share option scheme of the Company adopted on 6 May 2015 (the "Share Option Scheme") and was deemed to be interested in 4,000,000 underlying shares in respect of the share options granted.

3. The 13,500,000 Shares were held by Zacks Vroom Investment Company Limited, a company wholly-owned by Mr. Liu Tom Jing-zhi. The 150,000 Shares were held by his spouse, Ms. Thai Vanny. Accordingly, by virtue of the SFO, Mr. Liu is deemed to be interested in all the Shares in which Zacks Vroom Investment Company Limited and Ms. Thai Vanny are interested.

4. Each of Mr. Liu Tom Jing-zhi, Mr. Lao Kam Chi and Mr. Yu Ronghua was granted 2,000,000 share options during the year ended 31 December 2016 under the Share Option Scheme and was deemed to be interested in 2,000,000 underlying shares in respect of the share options granted.

5. The 9,000,000 Shares were held by Denmike Investment Company Limited, a company wholly-owned by Mr. Lao Kam Chi. Accordingly, by virtue of the SFO, Mr. Lao is deemed to be interested in all the Shares in which Denmike Investment Company Limited is interested.

6. The 13,500,000 Shares were held by Wonderful Investment Holding Company Limited, a company wholly-owned by Mr. Yu Ronghua. Accordingly, by virtue of the SFO, Mr. Yu was deemed to be interested in all the Shares in which Wonderful Investment Holding Company Limited was interested.

7. Each of Mr. Chan Lewis, Mr. Li Zongjin and Mr. Lee Wai Yat, Paco was granted 300,000 share options during the year ended 31 December 2016 under the Share Option Scheme and was deemed to be interested in 300,000 underlying shares in respect of the share options granted.

8. Mr. Law Wang Chak, Waltery was granted 400,000 share options and 130,000 share options were exercised during the year ended 31 December 2016 under the Share Option Scheme. He was deemed to be interested in 270,000 underlying shares in respect of the share options granted.

9. Mr. Fok Wai Shun, Wilson was granted 400,000 share options during the year ended 31 December 2016 under the Share Option Scheme and was deemed to be interested in 400,000 underlying shares in respect of the share options granted.

Save as disclosed above, as at 31 December 2017, none of the Directors, the Chief Executives nor their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2017, so far as known to the Directors, the following interests of 5% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Long/Short position	Type of interest	Number of Shares and underlying shares held	Approximate percentage of shareholding in the Company
Prima DG[1]	Long	Beneficial owner	345,696,000	55.74%
Mr. Choi Hung Nang[1]	Long	Interest in controlled corporation	345,696,000	55.74%
	Long	Beneficial owner	6,392,000	1.03%
	Long	Beneficial owner	4,000,000	0.64%
Ms. Tin Suen Chu[1]	Long	Interest of spouse	356,088,000	57.41%
Regal Sky Holdings Limited[2]	Long	Beneficial owner	50,304,000	8.11%
Ocean Equity Partners Fund L.P.[2]	Long	Interest in controlled corporation	50,304,000	8.11%
Ocean Equity Partners Fund GP Limited[2]	Long	Interest in controlled corporation	50,304,000	8.11%

Notes:

1. Prima DG directly held 345,696,000 Shares. Prima DG is directly held as to 40% by Mr. Choi Hung Nang. Accordingly, by virtue of the SFO, Mr. Choi Hung Nang is deemed to be interested in all the Shares in which Prima DG is interested.

   Since Ms. Tin Suen Chu is the spouse of Mr. Choi Hung Nang, Ms. Tin Suen Chu is deemed to be interested in the same number of Shares in which Mr. Choi Hung Nang is interested by virtue of the SFO.

2. Regal Sky Holdings Limited, a company incorporated under the laws of the British Virgin Islands, is controlled by Ocean Equity Partners Fund L.P., which is an exempted limited partnership registered in the Cayman Islands. The general partner of Ocean Equity Partners Fund L.P. is Ocean Equity Partners Fund GP Limited.

Save as disclosed above, as at 31 December 2017, no other interests or short positions in the Shares or underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Share Option Scheme

The Company's Share Option Scheme was adopted pursuant to the resolutions of all the shareholders passed on 6 May 2015 and shall be valid and effective for a period of 10 years commencing from 6 May 2015. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of the employees and directors of the members of the Group and other selected participants.

The Board may at its absolute discretion (subject to any conditions as it may think fit) grant options to any employee and director (including executive director, non-executive director and independent non-executive director) of any member of the Group and any other eligible participants (the "Eligible Participants") upon the terms set out in the Share Option Scheme.

The subscription price of a Share payable on the exercise of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price shall at least be the highest of: (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities ("Business Day"); and (iii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of offer or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme. HK$1.00 is payable by an Eligible Participant on acceptance of an offer of option. The period within which the Shares must be taken up under an option shall be determined by the Board at its absolute discretion and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme. There is no general requirement that an option must be held for any minimum period before it can be exercised.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other schemes of our Group must not in aggregate exceed 10% of the total number of Shares in issue as at the date on which the Shares were listed on the main board of the Stock Exchange on 27 May 2015 (the "Listing Date") (the "Limit"), i.e. 60,000,000 Shares representing approximately 9.67% of the issued Shares as at the date of this Annual Report. Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other schemes of the Group) will not be counted for the purpose of calculating the Limit. Subject to the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Company may refresh the Limit at any time provided that: (i) the Limit as refreshed does not exceed 10% of the Shares in issue as at the date of the approval by the refreshed Limit; (ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Limit as refreshed; and (iii) a circular containing the information and the disclaimer, respectively required under Rule 17.02(2)(d) and Rule 17.02(4) of the Listing Rules shall be despatched to the shareholders together with the notice of the relevant general meeting. Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme at any time shall not exceed 30% of the Shares in issue from time to time.

The total number of Shares issued and which fall to be issued upon exercise of the options granted under the Share Option Scheme and any other schemes of the Group (including both exercised and outstanding options) to each Eligible Participant in any period of 12 consecutive months up to and including the date of grant of the options shall not exceed 1% of the Shares in issue as at the date of grant of the options.

On 20 April 2016 ("Date of Grant"), options to subscribe for an aggregate of 24,700,000 Shares were granted to certain Eligible Participants under the Share Option Scheme. The exercise price in respect of each option granted under the Share Option Scheme on the Date of Grant is HK$0.88 per share. The adjusted closing price of the Shares immediately before the Date of Grant was HK$0.866 per Share. There was no Eligible Participant with options granted in excess of the individual limit.

The fair value of the share options granted on 20 April 2016 was HK$7,823,400 (equivalent to approximately RMB6,780,000) of which the Group recognised a share option expense of approximately RMB1,923,000 (2016: RMB3,921,000) during the year ended 31 December 2017.

The fair value of the share options granted on 20 April 2016 was estimated as at the Date of Grant by an independent firm of professionally qualified valuers, using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted.

The binomial option pricing model required input of subjective assumption such as the expected stock price volatility. Change in subjective input may materially affect the fair value estimates.

The details of the share options granted on 20 April 2016 under the Share Option Scheme are set out in note 26 to the financial statements.

During the year ended 31 December 2017, none of the above share options was exercised, cancelled or had lapsed and no option has been granted under the Share Option Scheme.

Particulars and movements of share options granted under the Share Option Scheme during the year ended 31 December 2017 were as follows:

Name of Grantee	Date of Grant	Exercise Period	Exercise price per Share	Outstanding as at 1 January 2017	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding as at 31 December 2017
Directors								
Mr. Choi Hung Nang	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	1,300,000	–	–	–	1,300,000
	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	1,300,000	–	–	–	1,300,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	1,400,000	–	–	–	1,400,000
Ms. Choi Kwan Li, Glendy	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	1,300,000	–	–	–	1,300,000
	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	1,300,000	–	–	–	1,300,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	1,400,000	–	–	–	1,400,000
Mr. Choi Hon Ting, Derek	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	1,300,000	–	–	–	1,300,000
	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	1,300,000	–	–	–	1,300,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	1,400,000	–	–	–	1,400,000
Mr. Liu Tom Jing-zhi	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	650,000	–	–	–	650,000
	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	650,000	–	–	–	650,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	700,000	–	–	–	700,000
Mr. Lao Kam Chi	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	650,000	–	–	–	650,000
	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	650,000	–	–	–	650,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	700,000	–	–	–	700,000
Mr. Yu Ronghua	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	650,000	–	–	–	650,000
(passed away on	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	650,000	–	–	–	650,000
13 January 2018)	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	700,000	–	–	–	700,000
Mr. Chan Lewis	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	100,000	–	–	–	100,000
	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	100,000	–	–	–	100,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	100,000	–	–	–	100,000

Name of Grantee	Date of Grant	Exercise Period	Exercise price per Share	Outstanding as at 1 January 2017	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding as at 31 December 2017
Directors								
Mr. Law Wang Chak, Waltery	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	130,000	–	–	–	130,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	140,000	–	–	–	140,000
Mr. Li Zongjin	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	100,000	–	–	–	100,000
	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	100,000	–	–	–	100,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	100,000	–	–	–	100,000
Mr. Lee Wai Yat, Paco	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	100,000	–	–	–	100,000
	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	100,000	–	–	–	100,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	100,000	–	–	–	100,000
Mr. Fok Wai Shun, Wilson	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	130,000	–	–	–	130,000
	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	130,000	–	–	–	130,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	140,000	–	–	–	140,000
				19,570,000	–	–	–	19,570,000
Other employees								
In aggregate	20/4/2016	1/10/2016 - 19/4/2021	HK$0.88	800,000	–	–	–	800,000
	20/4/2016	1/10/2017 - 19/4/2021	HK$0.88	1,000,000	–	–	–	1,000,000
	20/4/2016	1/10/2018 - 19/4/2021	HK$0.88	1,000,000	–	–	–	1,000,000
				2,800,000	–	–	–	2,800,000
				22,370,000	–	–	–	22,370,000

Directors' Interests in Transactions, Arrangements or Contracts

No Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries and a Controlling Shareholder or any of its subsidiaries was a party subsisting during or at the end of the year ended 31 December 2017.

Directors' Interests in Competing Business

During the year ended 31 December 2017 and up to the date of this Annual Report, none of the Directors had an interest in a business, which competes or may compete with the business of the Group under the Listing Rules.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

Equity-linked Agreements

Save for the Share Option Scheme as mentioned above, the Company has not entered into any equity-linked agreements during the year ended 31 December 2017.

Permitted Indemnity Provision

Pursuant to the Articles of Association, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his/her duty, or supposed duty, in his/her respective offices or trusts.

There is appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company.

Directors' Rights to Acquire Shares or Debentures

Apart from the Share Option Scheme as mentioned above, at no time during the year ended 31 December 2017 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company and any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company nor exercised any such right.

Connected Transactions and Continuing Connected Transactions

During the year ended 31 December 2017, the Group had not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of the Listing Rules.

Related Party Transactions

Details of the related party transactions undertaken by the Group during the year ended 31 December 2017 are set out in note 33 to the financial statements. These related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under the Listing Rules.

Subsequent Events

There were no significant subsequent events after the reporting period of the Group.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this Annual Report.

Auditor

The Board has appointed PricewaterhouseCoopers as the new auditor of the Company with effect from 14 July 2016 to fill the casual vacancy following the resignation of KPMG. Save as disclosed above, there was no other change of the auditor of the Company after the Listing Date.

The consolidated financial statements for the year ended 31 December 2017 of the Group have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board
Choi Hung Nang
Chairman

Hong Kong
28 March 2018

SUSTAINABILITY HIGHLIGHTS

The "One Belt One Road" policy established by the PRC government has provided years of momentum for the Group's growth and development. The growth has allowed the Group to be stretched domestically and internationally with business opportunities, and also internally to continue its research and integrated business approach. Innovative methods have been implemented in the manufacturing process to improve operation efficiency and environmental protection. Moreover, since the completion of the new research and development center, staff has been relocated into a new environment where they are empowered to innovate and work cohesively with one another.

Under the theme of "Journey of innovation, environmental protection, and reciprocity", the Group's Sustainability Report will highlight and detail the environmental and social benefits that the Group has received and shared with various stakeholders.

The sustainability highlights include the following

Safe manufacturing
- Zero Fatal Incident (3rd consecutive year since record)
- 7.0 injury rate per 1000 employees*

Smart and Green manufacturing
- Geothermal heat pumps applied in new Research and Development Center
- LED lighting replacements applied across factory
- Use of industrial robots, smart meters, and computer numerical control

Trainings provided to employees
- Safety and security training – 361 hours
- Technical and operational training – 348.5 hours
- Managerial and Professional Training –258 hours

Environmental performance
- 7.41 tCO_2/RMB'M revenue
- 86% of waste recycled
- 18 kWh ('000)/RMB'M revenue

Patents and Copyrights
- 58 registered patents- 4 invention patents, 54 utility model patents.
- 24 software copyrights.

Recognition and awards
- Caring Certificate
- Green Corporate Awards
- Green Initiatives
- Green Corporate Membership

The full Sustainability Report shall be published on the Group's website within 3 months of the date of this annual report.

* For reference: 15.6 injury rate per 1000 employees according to Hong Kong 2016 OSH Statistics (http://www.labour.gov.hk/eng/osh/pdf/OSH_Statistics_2016_NEW_EN.pdf)

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TO THE SHAREHOLDERS OF D&G TECHNOLOGY HOLDING COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of D&G Technology Holding Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 49 to 104, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of trade receivables is identified as a key audit matter in our audit and details are as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables *Refer to note 4(a) Impairment of trade receivables and note 18 Trade and bills receivable to the consolidated financial statements* The Group's trade receivables are principally derived from its sales of asphalt mixing plants. As at 31 December 2017, the Group's trade receivables from third party customers amounted to RMB482 million. The Group is exposed to risk of impairment of trade receivables. As at 31 December 2017, the accumulated provision amounted to RMB90 million. Management exercised judgements on the recoverability of trade receivables and made estimates of impairment provision based on the aging pattern, credit and settlement history, financial capability of its customers, recent settlements received and the current market situation. Provision for impairment charge may have significant impact on the Group's consolidated statement of profit or loss for the year. Significant judgements and estimations are involved in determining the recoverability of trade receivables and the adequacy of impairment provision.	We evaluated the design and implementation of management control over sales and receivable cycle and tested relevant key controls on the management's credit assessment of new customer acceptance and monthly review on trade receivables aging report. We also performed testing on the aging profile, settlements received during the year and subsequent settlements of the Group's trade receivables on a sample basis. We inquired management and assessed the reasonableness of its judgements on the recoverability of trade receivables and the adequacy of impairment provision, with focus on those balances aged over one year, primarily based on the information collected by management for the purpose of its assessment including aging report, credit and settlement history, assessment on financial capability of customers and recent settlements received. We also corroborated with other underlying documentation and correspondences with the customers. Based on our work, we found the significant judgements and estimations were supported by the audit evidence we gathered.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chu Wang Hay.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Revenue	5	**447,927**	321,449
Cost of sales	7	**(277,302)**	(194,515)
Gross profit		**170,625**	126,934
Other income and other gains/(losses), net	6	**5,532**	(4,023)
Distribution costs	7	**(66,737)**	(43,905)
Administrative expenses	7	**(84,677)**	(105,335)
Operating profit/(loss)		**24,743**	(26,329)
Finance income, net	9	**3,614**	378
Profit/(loss) before income tax		**28,357**	(25,951)
Income tax expense	10	**(7,200)**	(2,548)
Profit/(loss) attributable to owners of the Company for the year		**21,157**	(28,499)
Earnings/(loss) per share attributable to owners of the Company during the year	11		
– basic (RMB cents)		**3.41**	(4.60)
– diluted (RMB cents)		**3.40**	(4.60)

The notes on pages 55 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	**2017 RMB'000**	2016 RMB'000
Profit/(loss) for the year		**21,157**	(28,499)
Other comprehensive (loss)/income:			
Item that may be reclassified to profit or loss:			
Currency translation differences		**(8,443)**	14,797
Other comprehensive (loss)/income for the year, net of tax		**(8,443)**	14,797
Total comprehensive income/(loss) attributable to owners of the Company for the year		**12,714**	(13,702)

The notes on pages 55 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**161,827**	134,047
Land use right	13	**5,095**	5,226
Investment property	14	**12,077**	12,266
Intangible assets	15	**3,788**	3,890
Finance lease receivables	19	**22,612**	1,656
Prepayments	20	**24**	2,465
Deferred income tax assets	24	**20,350**	16,324
Total non-current assets		**225,773**	175,874
Current assets			
Inventories	17	**218,450**	168,763
Trade and bills receivable	18	**393,646**	384,224
Finance lease receivables	19	**25,754**	1,694
Prepayments, deposits and other receivables	20	**31,205**	28,376
Pledged bank deposits	21	**90,411**	89,031
Cash and cash equivalents	21	**42,708**	169,261
Total current assets		**802,174**	841,349
Total assets		**1,027,947**	1,017,223
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	**4,897**	4,897
Other reserves	28	**559,091**	569,283
Retained earnings	27	**176,828**	161,749
Total equity		**740,816**	735,929

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Deposits received from customers	23	**5,294**	–
Current liabilities			
Borrowings	22	**60,150**	63,271
Trade and other payables	23	**216,387**	214,831
Deposits received from customers	23	**562**	–
Income tax payable		**4,738**	3,192
Total current liabilities		**281,837**	281,294
Total liabilities		**287,131**	281,294
Total equity and liabilities		**1,027,947**	1,017,223

The consolidated financial statements on pages 49 to 104 were approved by the Board of Directors on 28 March 2018 and signed on its behalf.

Choi Hung Nang
Director

Choi Kwan Li, Glendy
Director

The notes on pages 55 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2017

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2016	4,888	445,961	65,290	–	34,422	17,994	193,711	762,266
Comprehensive income:								
Loss for the year	–	–	–	–	–	–	(28,499)	(28,499)
Other comprehensive income:								
Currency translation differences	–	–	–	–	–	14,797	–	14,797
Total comprehensive income/(loss)	–	–	–	–	–	14,797	(28,499)	(13,702)
Transactions with owners in their capacity as owners								
Employee share option scheme – grant of share options	–	–	–	3,921	–	–	–	3,921
Employee share option scheme – exercise of share options	9	752	–	–	–	–	–	761
Transfer to statutory reserve	–	–	–	–	3,463	–	(3,463)	–
Dividends	–	(17,317)	–	–	–	–	–	(17,317)
Total transactions with owners	9	(16,565)	–	3,921	3,463	–	(3,463)	(12,635)
Balance at 31 December 2016	4,897	429,396	65,290	3,921	37,885	32,791	161,749	735,929
Balance at 1 January 2017	**4,897**	**429,396**	**65,290**	**3,921**	**37,885**	**32,791**	**161,749**	**735,929**
Comprehensive income:								
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**21,157**	**21,157**
Other comprehensive loss:								
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(8,443)**	**–**	**(8,443)**
Total comprehensive (loss)/income	**–**	**–**	**–**	**–**	**–**	**(8,443)**	**21,157**	**12,714**
Transactions with owners in their capacity as owners								
Employee share option scheme – grant of share options	**–**	**–**	**–**	**1,952**	**–**	**–**	**–**	**1,952**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**6,078**	**–**	**(6,078)**	**–**
Dividends	**–**	**(9,779)**	**–**	**–**	**–**	**–**	**–**	**(9,779)**
Total transactions with owners	**–**	**(9,779)**	**–**	**1,952**	**6,078**	**–**	**(6,078)**	**(7,827)**
Balance at 31 December 2017	**4,897**	**419,617**	**65,290**	**5,873**	**43,963**	**24,348**	**176,828**	**740,816**

The notes on pages 55 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31 December 2017

	Note	**2017 RMB'000**	2016 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	30(a)	**(58,873)**	612
Income tax paid		**(9,679)**	(9,025)
Net cash used in operating activities		**(68,552)**	(8,413)
Cash flows from investing activities			
Payments for purchases of intangible assets		**(641)**	(3,342)
Payments for purchase of investment property		**–**	(12,577)
Payments for purchases of property, plant and equipment		**(46,691)**	(63,814)
Proceeds from disposal of property, plant and equipment		**47**	1,871
Release of bank deposits with initial terms of over three months		**–**	105,578
Interest income		**588**	2,215
Net cash (used in)/generated from investing activities		**(46,697)**	29,931
Cash flows from financing activities			
Proceeds from issue of ordinary shares upon exercise of share options		**–**	761
Proceeds from borrowings	30(b)	**32,501**	62,186
Repayments of borrowings	30(b)	**(32,802)**	(104,375)
Release of restricted bank deposits pledged for borrowings		**4,592**	28,581
Dividend paid		**(9,779)**	(17,317)
Interest expenses		**(1,792)**	(2,661)
Net cash used in financing activities		**(7,280)**	(32,825)
Net decrease in cash and cash equivalents		**(122,529)**	(11,307)
Cash and cash equivalents at beginning of the year		**169,261**	168,881
Exchange (loss)/gain on cash and cash equivalents		**(4,024)**	11,687
Cash and cash equivalents at end of the year	21	**42,708**	169,261

The notes on pages 55 to 104 are an integral part of these consolidated financial statements.

1 General information

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

The Company and its subsidiaries (together, the "Group") are principally engaged in manufacturing, distribution, research and development and operating lease of asphalt mixing machinery and provision of machinery finance services.

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Company 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 preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

Changes in accounting policy 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 2017. The adoption of these amendments has not had any significant impact to the results and financial position of the Group.

HKAS 7 Amendment	Statement of Cash Flows
HKAS 12 Amendment	Income Taxes
HKFRS 12 Amendment	Disclosure of Interest in Other Entities

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(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 2017 and have not been early adopted by the Group:

		Effective for the accounting period beginning on or after
HKAS 28 Amendment	Investments in Associates and Joint Ventures	1 January 2018
HKAS 40 Amendment	Transfers of Investment Property	1 January 2018
HKFRS 1 Amendment	First Time Adoption of HKFRS	1 January 2018
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 4 Amendment	Insurance Contracts	1 January 2018
HKFRS 9 (i)	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 (ii)	Revenue from Contracts with Customers	1 January 2018
HKFRS 16 (iii)	Leases	1 January 2019
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019

(i) HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group does not expect the new guidance to have significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instrument that is classified as available-for-sale financial asset;
- Debt instrument classified as held-to-maturity and measured at amortised cost; and
- Equity investment measured at fair value through profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(b) New Standards and interpretation not yet adopted (Continued)

(i) HKFRS 9 Financial Instruments (Continued)

Impact (Continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the preliminary assessments undertaken to date, the Group expects there may be insignificant increase in the loss allowance for trade receivables.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

This new standards must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(ii) HKFRS 15 Revenue from Contracts with Customers

Nature of change

The HKICPA issued HKFRS 15 as a new standard for the recognition of revenue to replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service is transferred to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

When applying HKFRS 15, revenue shall be recognised by applying following steps:

- Identify the contract with customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract;
- Recognise revenue when (or as) the entity satisfies a performance obligation

Management has preliminarily assessed the effects of applying the new standard on the Group's financial statements and has identified the following area that will be affected:

- Presentation of contract assets and contract liabilities in the balance sheet – HKFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to contract liabilities which are currently included in other balance sheet line items.

Management also expects the application of HKFRS 15 may result in more disclosures.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(b) New Standards and interpretation not yet adopted (Continued)

(ii) HKFRS 15 Revenue from Contracts with Customers (Continued)

This standard is mandatory for financial years commencing on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

(iii) HKFRS 16 Leases

Nature of change

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2017, the Group had non-cancellable operating lease commitments of RMB958,000.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

The standard is mandatory for annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations. According to the preliminary assessment, other than the assessment results of HKFRS 9, 15 and 16 stated above, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

(b) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

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.

2 Summary of significant accounting policies (Continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency'). The consolidated financial statements are presented in RMB, which is the Group's presentation currency. The Company's functional currency is Hong Kong Dollars ("HK$").

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

All foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within "other income and other gains/(losses), net".

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

2 Summary of significant accounting policies (Continued)

2.5 Land use right

Land use right is stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years. Amortisation of land use right is calculated on a straight-line basis over the period of the land use right.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation of property, plant and equipment are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, where appropriate, as follows:

Leasehold land	over the lease term
Plant and buildings	10 - 20 years
Leasehold improvements	over the shorter of the unexpired term of lease and 5 years
Machinery	3 - 10 years
Office equipment and furniture	4 - 10 years
Motor vehicles	5 years

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains or losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "other income and other gains/(losses), net" in the consolidated statement of profit or loss.

2.7 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property is carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statement of profit or loss as part of a valuation gain or loss in 'other income and other gains/(losses), net'.

2 Summary of significant accounting policies (Continued)

2.8 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost. Cost includes the costs of construction of buildings and the costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.6.

2.9 Intangible assets

Separately acquired computer software is recognised at historical cost at the acquisition date. Computer software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives ranging from 5 years to 10 years.

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled beyond normal business cycle after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "pledged bank deposits" in the consolidated statement of financial position (Notes 2.14 and 2.15).

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets (Continued)

2.11.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.12 Impairment of financial assets - assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2 Summary of significant accounting policies (Continued)

2.15 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade and others payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Financial liabilities

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks and third-party leasing companies on behalf of certain subsidiaries and customers. The Group does not recognise liabilities for financial guarantee at inception, but performs a liability adequacy test at each reporting date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee would result in a present legal or constructive obligation. If the liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the consolidated statement of profit or loss immediately.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 Summary of significant accounting policies (Continued)

2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the consolidated statement of financial position in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

2 Summary of significant accounting policies (Continued)

2.21 Current and deferred income tax (Continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

(a) Defined contribution schemes

The Group companies operate various defined contribution schemes. A defined contribution plan is a pension plan under which the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) Performance bonus

The expected cost of bonus payment is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.23 Equity-settled share-based payment transactions

The Group operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specific period of time).

2 Summary of significant accounting policies (Continued)

2.23 Equity-settled share-based payment transactions (Continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2.24 Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition (Continued)

(i) Sale of goods

Revenue is recognised when goods are delivered to the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership has been transferred. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Equipment modification service income

Equipment modification service income is recognised when services are rendered.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except for the rental income of operating leases of machinery which is recognised based on agreed unit rental per tonne of the machinery output. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

(v) Government grants

Government grants are recognised in the consolidated statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(vi) Rental income from investment property

Rental income from investment property is recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

The method for allocating gross earnings to accounting periods is referred to a as the "actuarial method". The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, as appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and the business environment of the industry in which the Group operates, and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Currency risk

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to RMB, HK$, United States Dollars ("USD"), Euros ("EUR") and Singapore Dollars ("SGD"). Currency risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

As at 31 December 2017, certain RMB denominated cash and deposits were held by Hong Kong group entities (2016: Same). If RMB had strengthened/weakened by 5% (2016: Same) against HK$ with all other variables held constant, the post-tax profit for the year would have been RMB340,000 (2016: RMB2,462,000) higher/lower, mainly as a result of foreign exchange gains/losses on these RMB denominated cash and deposits.

The currency risk on assets and liabilities denominated in USD, which were mainly held by Hong Kong group entities, is considered to be minimal as HK$ is currently pegged to USD (2016: Same).

The currency risk on assets and liabilities denominated in EUR and SGD is considered to be minimal as the Group had limited Euro and SGD denominated assets and liabilities (2016: Same).

The currency risk on assets and liabilities denominated in HK$ is considered to be minimal as the Group had limited HK$ denominated assets and liabilities held by PRC group entities (2016: Same).

(ii) Cash flow interest rate risk

The Group's interest rate risk arises from bank borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated statement of profit or loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

At 31 December 2017, if interest rates on borrowings had been 100 basis points higher/lower (2016: Same) with all other variables held constant, post-tax profit for the year would have been RMB294,000 (2016: RMB361,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk of the Group mainly arises from deposits with banks and financial institutions, as well as credit exposures to customers such as trade receivables, amounts due from related parties and other receivables. The carrying amount of these balances in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets.

Majority of the Group's bank deposits are placed in those banks and financial institutions which are independently rated with a high credit rating. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

Debtors of the Group may be affected by the unfavorable economic conditions and the lower liquidity situation, which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimate of expected future cash flows in their impairment assessments.

The credit quality of the customers is assessed based on its financial position, past experience and other factors. The Group has policies in place to ensure that sales of products are made to customers with appropriate credit history.

As at 31 December 2017, the top 5 customers account for 9% (2016: 13%) of the Group's total year end trade receivable balances.

The Group performs periodic credit evaluations of its customers. For the trade and other receivables proved to be impaired, management has provided sufficient provision on those balances.

Management considers the credit risk on amounts due from related companies and other receivables is minimal after considering the financial conditions of these entities. Management has performed assessment over the recoverability of these balances and does not expect any losses from non-performance by these companies other than those which have been fully provided for.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. The directors aim to maintain flexibility in funding by keeping credit lines available.

Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 22) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Surplus cash held by Group entities over and above balances required for working capital management is invested in interest-bearing bank accounts and bank deposits with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The following tables analyses the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the date of the consolidated statement of financial position) and the earliest date the Group can be required to pay.

	At 31 December 2017 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 5 years RMB'000**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Borrowings	**62,892**	**–**	**62,892**	**60,150**
Trade and other payables (Note)	**184,732**	**–**	**184,732**	**184,732**
Deposits received from customers	**562**	**5,294**	**5,856**	**5,856**
	248,186	**5,294**	**253,480**	**250,738**

	At 31 December 2016 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Borrowings	64,184	–	64,184	63,271
Trade and other payables (Note)	169,206	–	169,206	169,206
	233,390	–	233,390	232,477

Note: The balance presented above excludes accrued salaries, receipt in advance and other accruals.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital by maintaining a net cash position throughout the year.

3 Financial risk management (Continued)

3.3 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including trade and bills receivables, finance lease receivables, deposits and other receivables, cash and cash equivalents, pledged bank deposits, trade and bills payables, other payables and borrowings approximate their fair values.

Disclosures of the investment property that is measured at fair value are set out in Note 14 to the consolidated financial statements.

3.4 Offsetting financial assets and financial liabilities

No financial assets and financial liabilities were subject to offsetting, enforceable master netting arrangements and similar agreements as at 31 December 2017 and 2016.

4 Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of trade receivables

Management estimates impairment losses of trade receivables (which are recorded in an allowance account for doubtful debts) resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing pattern, credit and settlement history, financial capability of its customers, recent settlements received and the current market situation. Provision for impairment charge may have significant impact on the Group's consolidated statement of profit or loss for the year. Significant judgements and estimations are involved in determining the recoverability of trade receivables and the adequacy of impairment provision.

(b) Fair value of the investment property

Fair value of the investment property is determined by using valuation technique. Details of the significant judgement and assumptions were disclosed in Note 14 to the consolidated financial statements.

(c) Useful lives of property, plant and equipment, land use right and intangible assets

The Group's management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment, land use right and intangible assets (other than goodwill). This estimate is based on the historical experience of the actual useful lives of property, plant and equipment, land use right and intangible assets of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortisation lives and therefore depreciation and amortisation expense in future periods.

(d) Impairment of property, plant and equipment, land use right and intangible assets

Property, plant and equipment, land use right and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable such as declines in asset's market value and significant increase in interest rates that may affect the discount rate used in calculating the asset's recoverable amount. The recoverable amounts have been determined based on the higher of fair value less costs of disposal calculations or value in use calculations. These calculations require the use of judgements and estimates.

4 Critical accounting estimates and judgments (Continued)

(e) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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 that make strategic decisions.

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

Revenue consists of the following:

	2017 **RMB'000**	2016 RMB'000
Sales of asphalt mixing plants	**367,655**	246,193
Sales of spare parts and provision of equipment modification services	**38,001**	23,625
Operating lease income of asphalt mixing plants	**38,123**	45,766
Finance lease income	**4,148**	–
Sales of asphalt mixture	**–**	5,865
	447,927	321,449

(a) Revenue from external customers by country

	2017 **RMB'000**	2016 RMB'000
People's Republic of China (the "PRC")	**333,713**	296,755
Outside PRC	**114,214**	24,694
	447,927	321,449

5 Segment information (Continued)

(b) Non-current assets

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

	2017 RMB'000	2016 RMB'000
The PRC	**133,843**	106,385
Outside PRC	**48,968**	51,509
	182,811	157,894

(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 revenues for each of the years presented.

6 Other income and other gains/(losses), net

	2017 RMB'000	2016 RMB'000
Other income		
Rental income from investment property (Note 14)	**431**	160
Government grants (Note)	**2,393**	3,019
	2,824	3,179
Other gains/(losses)		
Net loss on disposal of property, plant and equipment	**(82)**	(606)
Fair value gain/(loss) on revaluation of investment property (Note 14)	**691**	(704)
Net foreign exchange gain/(loss)	**1,918**	(6,206)
Others	**181**	314
	2,708	(7,202)
	5,532	(4,023)

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

7 Expenses by nature

	2017 RMB'000	2016 RMB'000
Employee benefit expense (Note 8)	**62,852**	63,802
Depreciation (Note 12)		
– Assets held for leasing out under operating leases	**7,534**	8,943
– Other assets	**8,529**	4,878
Amortisation		
– Land use right (Note 13)	**131**	131
– Intangible assets (Note 15)	**733**	238
Provision for impairment of trade receivables, net (Note 18)	**19,153**	34,622
Provision for impairment of other receivables (Note 20)	**–**	3,693
Operating lease charges	**3,156**	3,787
Research and development costs	**16,133**	14,382
Auditor's remuneration		
– Audit services	**1,734**	1,491
– Non-audit services	**74**	69
Cost of inventories (Note 17)	**251,129**	162,448
Freight and transportation expense	**13,317**	10,658
Other expenses	**44,241**	34,613
Total cost of sales, distribution costs and administrative expenses	**428,716**	343,755

8 Employee benefit expenses

(a) Employee benefit expenses during the year are as follows:

	2017 RMB'000	2016 RMB'000
Wages, salaries and allowances	**49,450**	49,609
Pension costs – defined contribution plans (Note (i))	**11,450**	10,272
Share-based payment expenses	**1,952**	3,921
	62,852	63,802

8 Employee benefit expenses (Continued)

(a) Employee benefit expenses during the year are as follows: (Continued)

Note (i):

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000.

The Group has no other material obligation for the payment of retirement benefits associated with the schemes beyond the annual contributions described above.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2016: four) directors whose emoluments are reflected in the analysis shown in Note 35. The emoluments payable to the remaining one (2016: one) individual during the year are as follows:

	2017 **RMB'000**	2016 RMB'000
Basic salaries, other allowances and benefits in kind	**1,325**	1,476
Retirement scheme contributions	**15**	10
	1,340	1,486

9 Finance income, net

	2017 **RMB'000**	2016 RMB'000
Interest on bank borrowings	**(1,792)**	(2,661)
Interest income on bank deposits	**580**	2,180
Interest income on trade receivables not expected to be settled within one year	**4,818**	824
Others	**8**	35
	3,614	378

10 Income tax expense

(a) Income tax expense

	2017 RMB'000	2016 RMB'000
Current income tax:		
– PRC corporate income tax	**11,032**	8,026
– Hong Kong profits tax	**6**	–
– Under/(over) provision in prior years	**188**	(14)
	11,226	8,012
Deferred income tax (Note 24)	**(4,026)**	(5,464)
	7,200	2,548

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2017 RMB'000	2016 RMB'000
Profit/(loss) before tax	**28,357**	(25,951)
Notional tax on profit/(loss) before tax, calculated at the rates applicable to the jurisdictions concerned (i)	**9,087**	(1,442)
Effect of preferential tax rate (ii)	**(5,231)**	(308)
Tax losses for which no deferred income tax assets was recognised	**3,492**	2,627
Utilisation of previously unrecognised tax losses	**(185)**	–
Income not subject to tax	**(114)**	–
Tax effect of non-deductible expenses	**1,173**	2,764
Additional deduction for qualified research and development expenses (iii)	**(1,210)**	(1,079)
Under/(over) provision in prior years	**188**	(14)
	7,200	2,548

10 Income tax expense (Continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable (Continued)

The change in weighed average applicable domestic tax rates is mainly caused by a change in mix of profit earned by different group companies which are subject to different tax rate.

(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.

The provision for the Hong Kong profits tax of the subsidiaries incorporated in Hong Kong is calculated at 16.5% of the estimated taxable profit (2016: Nil).

No provision for Singapore, India and Pakistan income tax was made for the subsidiaries incorporated in Singapore, India and Pakistan as the subsidiaries did not have assessable profits subject to Singapore, India and Pakistan income tax (2016: Nil).

The Group's PRC subsidiaries are subject to the PRC corporate income tax rate of 25% (2016: 25%).

(ii) According to the PRC corporate income tax law and its relevant regulations, a wholly-owned subsidiary of the Group, Langfang D&G Machinery 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% (2016: 15%).

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

11 Earnings/(loss) per share

(a) Basic

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

	2017	2016
Profit/(loss) attributable to owners of the Company (RMB'000)	**21,157**	(28,499)
Weighted average number of ordinary shares in issue (Note)	**620,238,000**	619,381,863
Basic earnings/(loss) per share (expressed in RMB cents per share)	**3.41**	(4.60)

Note

	2017 **No of shares**	2016 No of shares
Shares issued at the beginning of the year	**620,238,000**	619,258,000
Effect of shares issued in respect of share options exercised during the year	**–**	123,863
Weighted average number of ordinary shares for basic earnings/(loss) per share	**620,238,000**	619,381,863

11 Earnings/(loss) per share (Continued)

(b) Diluted

The calculation of the diluted earnings/(loss) per share was based on the profit/(loss) for the year attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during that year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

	2017	2016
Profit/(loss) attributable to owners of the Company (RMB'000)	**21,157**	(28,499)
Weighted average number of ordinary shares in issue	**620,238,000**	619,381,863
Effect of dilutive potential ordinary shares:		
– Share options (Note)	**1,547,000**	–
Weighted average number of ordinary shares in issue for the purpose of diluted earnings/(loss) per share	**621,785,000**	619,381,863
Diluted earnings/(loss) per share (expressed in RMB cents per share)	**3.40**	(4.60)

Note:

Diluted loss per share for the year ended 31 December 2016 did not assume the exercise of the share options since the exercise had an anti-dilutive effect on the loss per share.

12 Property, plant and equipment

	Leasehold land RMB'000	Plant and buildings RMB'000	Leasehold Improvements RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2017								
Opening net book amount	34,560	31,095	352	59,253	1,218	1,865	5,704	134,047
Additions	–	2,461	–	28,088	15	798	15,329	46,691
Disposals	–	(21)	–	(89)	–	(18)	–	(128)
Transfers	–	1,926	–	–	–	–	(1,926)	–
Depreciation charge for the year	(40)	(2,475)	(187)	(12,488)	(444)	(429)	–	(16,063)
Exchange differences	(2,419)	(214)	(17)	–	(58)	(12)	–	(2,720)
Closing net book amount	32,101	32,772	148	74,764	731	2,204	19,107	161,827
At 31 December 2017								
Cost	32,156	50,366	610	122,279	1,948	6,123	19,107	232,589
Accumulated depreciation	(55)	(17,594)	(462)	(47,515)	(1,217)	(3,919)	–	(70,762)
Net book amount	32,101	32,772	148	74,764	731	2,204	19,107	161,827

	Leasehold land RMB'000	Plant and buildings RMB'000	Leasehold Improvements RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2016								
Opening net book amount	–	27,580	517	52,334	333	1,861	2,649	85,274
Additions	33,468	3,109	12	16,006	1,168	658	9,393	63,814
Disposals	–	(4)	–	(2,435)	–	(38)	–	(2,477)
Transfers	–	2,515	–	3,823	–	–	(6,338)	–
Depreciation charge for the year	(17)	(2,207)	(212)	(10,475)	(283)	(627)	–	(13,821)
Exchange differences	1,109	102	35	–	–	11	–	1,257
Closing net book amount	34,560	31,095	352	59,253	1,218	1,865	5,704	134,047
At 31 December 2016								
Cost	34,577	46,239	654	94,631	2,015	5,501	5,704	189,321
Accumulated depreciation	(17)	(15,144)	(302)	(35,378)	(797)	(3,636)	–	(55,274)
Net book amount	34,560	31,095	352	59,253	1,218	1,865	5,704	134,047

Depreciation expense of RMB11,420,000 and RMB4,643,000 (2016: RMB12,088,000 and RMB1,733,000) has been charged to "cost of sales" and "administrative expenses", respectively.

As at 31 December 2017, leasehold land and buildings with a total net book value of RMB34,888,000 and RMB10,357,000 were pledged as security for bank loans and bills payable, respectively (2016: RMB37,704,000 and RMB11,242,000) (Notes 22(i) and 23(ii)).

13 Land use right

	2017 RMB'000	2016 RMB'000
At 1 January	**5,226**	5,357
Amortisation charge for the year (Note 7)	**(131)**	(131)
At 31 December	**5,095**	5,226

Land use right with net book value of RMB5,095,000 (2016: RMB5,226,000) represents pieces of land located in the PRC with lease periods of 50 years expiring in 2056, which were pledged as security for bills payable as at 31 December 2017 (Note 23(ii)).

14 Investment property

	2017 RMB'000	2016 RMB'000
At fair value		
Opening balance at 1 January	**12,266**	–
Additions	**–**	12,577
Fair value gain/(loss) (Note 6)	**691**	(704)
Exchange differences	**(880)**	393
Closing balance at 31 December	**12,077**	12,266

An independent valuation of the Group's investment property was performed by the valuer, APAC Asset Valuation and Consulting Limited, to determine the fair value of the investment property as at 31 December 2017 with reference to the comparable sales as available on the relevant market and where applicable, valued on the basis of capitalisation of future rental income (2016: Same).

The level of inputs to valuation technique used to measure the fair value are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The valuation technique used by the valuer is direct comparison approach, under which the fair value is estimated by assuming sale of property interest in its existing stake by making reference to comparable sales transactions in the relevant market (2016: a combination of direct comparison and income capitalisation approach, under which the fair value is estimated by assuming sale of property interest in its existing stake by making reference to comparable sales transactions and market rental rates as available in the relevant market).

14 Investment property (Continued)

The significant unobservable inputs are average market values ranging from HK$10,337 to HK$12,984 per square foot (2016: HK$7,902 to HK$9,317 per square foot and average market rental rates ranging from HK$22.9 to HK$24.0 per square foot). An increase in average market value per square foot (2016: increase in average market value or average market rental rates per square foot) will result in an increase in fair value of the investment property.

The fair value of the investment property at 31 December 2017 using significant unobservable inputs (Level 3) amounted to HK$14,500,000 (equivalent to RMB12,077,000). Revaluation gain/(loss) is included in "other income and other gains/losses, net" in the consolidated statement of profit or loss (Note 6).

The investment property represents office premises located in Hong Kong. Rental income recognised in the consolidated statement of profit or loss for the year ended 31 December 2017 amounted to RMB431,000 (2016: RMB160,000) (Note 6).

15 Intangible assets

	RMB'000
Year ended 31 December 2016	
Opening net book amount	777
Additions	3,342
Amortisation charge (Note 7)	(238)
Exchange difference	9
Closing net book amount	3,890
At 31 December 2016	
Cost	5,002
Accumulated amortisation	(1,112)
Net book amount	3,890
Year ended 31 December 2017	
Opening net book amount	3,890
Additions	641
Amortisation charge (Note 7)	(733)
Exchange difference	(10)
Closing net book amount	3,788
At 31 December 2017	
Cost	5,633
Accumulated amortisation	(1,845)
Net book amount	3,788

The Group's intangible assets mainly represent computer software. Amortisation of approximately RMB733,000 (2016: RMB238,000) is included in administrative expenses.

16 Subsidiaries

The directors are of the opinion that a complete list of the particulars of all the subsidiaries will be of excessive length and therefore the following list contains only the particulars of the subsidiaries which materially affect the results or assets of the Group.

Particulars of the principal subsidiaries as at 31 December 2017 and 2016 are shown as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by the Group (%)
Rich Benefit International Limited ("Rich Benefit") (萬利國際有限公司)	British Virgin Islands	Investment holding	100 shares of US$1 each (2016: Same)	100% (2016: Same)	100% (2016: Same)
BW Enterprise Company Limited ("BW Enterprise") (百威企業有限公司)	Hong Kong	Investment holding	HK$30,000,000 (2016: Same)	– (2016: Same)	100% (2016: Same)
Langfang D&G* (廊坊德基機械科技有限公司)	The PRC	Manufacture of asphalt mixing plants	Registered and total paid-in capital of RMB200,000,000 (2016: Same)	– (2016: Same)	100% (2016: Same)
Tianjin D&G Machinery Equipment Leasing Company Limited ("TJDG")* (天津德基機械設備租賃有限公司)	The PRC	Leasing of asphalt mixing plants	Registered and total paid-in capital of RMB2,563,680 (2016: Same)	– (2016: Same)	100% (2016: Same)
Primach Technology Pte Ltd ("Primach")	Singapore	Sales of asphalt mixing plants	SGD10,000 (2016: Same)	– (2016: Same)	100% (2016: Same)
Super Diamond Group Ltd	British Virgin Islands	Leasing of property	100 shares of US$1 each (2016: Same)	– (2016: Same)	100% (2016: Same)
Topp Financial Leasing (Shanghai) Co., Ltd.* (拓菩融資租賃(上海)有限公司)	The PRC	Leasing of asphalt mixing plants	Registered capital of RMB70,000,000 and total paid-in capital of RMB50,000,000 (2016: RMB1,000,000)	– (2016: Same)	100% (2016: Same)
Binzhou Detai Road Materials Co., Ltd. * (濱州市德泰道路材料有限公司)	The PRC	Sales of asphalt mixture	Registered capital of RMB5,000,000 and total paid-in capital of RMB500,000 (2016: RMB Nil)	– (2016: Same)	100% (2016: Same)

* The official names of these companies are in Chinese. The English translation of the name is for reference only.

All subsidiaries of the Group are wholly-owned, there was no non-controlling interest as at 31 December 2017 (2016: Nil).

17 Inventories

	2017 RMB'000	2016 RMB'000
Raw materials	**105,699**	73,660
Work in progress	**102,010**	89,333
Finished goods	**10,741**	5,770
	218,450	168,763

The cost of inventories recognised as expense and included in "cost of sales" amounted to approximately RMB251,129,000 (2016: RMB162,448,000).

The inventories as at 31 December 2017 and 2016 were stated at cost.

No inventory provision was made as at 31 December 2017 and 2016.

18 Trade and bills receivable

	2017 RMB'000	2016 RMB'000
Trade receivables from third parties (Notes (a) and (b))	**482,052**	454,277
Less: provision for impairment (Note (e))	**(90,206)**	(71,053)
	391,846	383,224
Bills receivable	**1,800**	1,000
Total trade and bills receivable	**393,646**	384,224

The carrying amounts of trade and bills receivable approximated their fair values.

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

(b) An ageing analysis of the trade receivables, based on invoice date of trade receivables as at the end of the year is as follows:

	2017 RMB'000	2016 RMB'000
Less than 3 months	**18,864**	64,606
3 to 6 months	**82,854**	59,379
6 to 12 months	**140,493**	80,759
1 to 2 years	**99,344**	177,764
Over 2 years	**140,497**	71,769
	482,052	454,277

18 Trade and bills receivable (Continued)

(c) An ageing analysis of the trade receivables, based on due date as at the end of the year is as follows:

	2017 RMB'000	2016 RMB'000
Current	**157,743**	118,797
Past due but not impaired	**184,779**	186,599
Past due and impaired	**139,530**	148,881
	482,052	454,277

As of 31 December 2017, trade receivables of RMB184,779,000 (2016: RMB186,599,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty. Based on past experience and evaluation of their current creditability, the overdue amounts can be recovered. The ageing analysis of these trade receivables based on due date is as follows:

	2017 RMB'000	2016 RMB'000
Less than 3 months	**65,720**	56,990
3 to 12 months	**75,385**	102,494
1 to 2 years	**36,789**	25,815
Over 2 years	**6,885**	1,300
	184,779	186,599

As of 31 December 2017, trade receivables of RMB139,530,000 (2016: RMB148,881,000) were impaired. The amount of the provision was RMB90,206,000 as of 31 December 2017 (2016: RMB71,053,000). Management has assessed the recoverability of the trade receivables and the impaired receivables mainly relate to certain customers which are in difficult economic situations and fail to fulfill their agreed repayment schedules. The ageing analysis of these receivables based on due date is as follows:

	2017 RMB'000	2016 RMB'000
3 to 12 months	**9,140**	48,457
1 to 2 years	**77,037**	93,135
Over 2 years	**53,353**	7,289
	139,530	148,881

18 Trade and bills receivable (Continued)

(d) The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2017 **RMB'000**	2016 RMB'000
RMB	**391,846**	382,454
USD	**–**	422
EUR	**–**	348
	391,846	383,224

(e) The movement in the provision for impairment during the year is as follows:

	2017 **RMB'000**	2016 RMB'000
Balance at 1 January	**71,053**	36,431
Impairment loss	**41,419**	40,477
Reversal of impairment loss	**(22,266)**	(5,855)
Balance at 31 December	**90,206**	71,053

The creation and release of provision for impaired receivables has been included in administrative expenses in the consolidated statement of profit or loss (Note 7). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(f) The maximum exposure to credit risk at the reporting date was the carrying values of each class of receivable mentioned above. The Group did not hold any other collateral as security.

19 Finance lease receivables and deposits received with customers

(a) Finance lease receivables

The Group provides finance leasing services in the PRC. These leases are classified as finance leases and have lease terms of two to three years. The carrying amounts of finance lease receivables are denominated in RMB.

	2017 RMB'000	2016 RMB'000
Non-current:		
Finance leases – gross receivables	**24,017**	1,701
Unearned finance income	**(1,405)**	(45)
	22,612	1,656
Current:		
Finance leases – gross receivables	**28,973**	1,855
Unearned finance income	**(3,219)**	(161)
	25,754	1,694
Total	**48,366**	3,350
Gross receivables from finance leases:		
Not later than 1 year	**28,973**	1,855
Later than 1 year and not later than 5 years	**24,017**	1,701
	52,990	3,556
Unearned future finance income on finance leases	**(4,624)**	(206)
Net investment in finance leases	**48,366**	3,350
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	**25,754**	1,694
Later than 1 year and not later than 5 years	**22,612**	1,656
	48,366	3,350

(b) Deposits received with customers

Deposits of RMB5,856,000 (2016: Nil) were received by the Group to secure certain finance lease receivables and classified into current or non-current liabilities based on the final lease instalment due date stipulated in the finance lease agreements.

20 Prepayments, deposits and other receivables

	2017 RMB'000	2016 RMB'000
Non-current:		
Prepayments for purchase of property, plant and equipment	**24**	2,465
Current:		
Prepayments to suppliers	**20,750**	19,696
Other receivables and deposits	**10,455**	8,567
	31,205	28,263
Amounts due from related parties (Note 33(b))	**–**	113
Total current portion	**31,205**	28,376
Total prepayments, deposits and other receivables	**31,229**	30,841

The carrying amounts of deposits and other receivables approximated their fair values.

The carrying amounts of the Group's prepayments, deposits and other receivables are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	**28,191**	28,551
HK$	**2,569**	2,162
USD	**420**	128
Others	**49**	–
	31,229	30,841

The movement in the provision for impairment during the year is as follows:

	2017 RMB'000	2016 RMB'000
Balance at 1 January	**3,693**	–
Impairment loss	**–**	3,693
Balance at 31 December	**3,693**	3,693

As at 31 December 2017 and 2016, a deposit of RMB3,693,000 was impaired as management considers the deposit irrecoverable (Note 7).

The maximum exposure to credit risk at the reporting date was the carrying values of each class of receivable mentioned above. The Group did not hold any collateral as security.

21 Cash and cash equivalents and pledged bank deposits

The Group's cash and bank balances comprise the following:

	2017 RMB'000	2016 RMB'000
Cash at bank and on hand	**42,708**	169,261
Restricted bank deposits pledged in respect of bank borrowings (Note 22(i))	**25,327**	29,919
Restricted bank deposits pledged in respect of bills payable (Note 23(ii))	**65,084**	59,112
Total pledged bank deposits	**90,411**	89,031
	133,119	258,292

The effective interest rate on short-term bank deposits was 0.6% (2016: 3.5%) per annum.

The pledged bank deposits will be released upon the settlement of relevant bills payable and borrowings.

The Group's cash and bank balances are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	**62,405**	143,438
HKD	**53,662**	89,470
EUR	**1,363**	896
SGD	**226**	914
USD	**15,010**	23,574
Others	**453**	–
	133,119	258,292

Significant restrictions

The bank balances of the Group amounting to RMB54,000,000 (2016: RMB82,664,000) are placed with certain banks in the PRC. The remittance of these balances is subject to the foreign exchange control restrictions imposed by the PRC government.

22 Borrowings

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

	2017 RMB'000	2016 RMB'000
Secured bank loans	**60,150**	63,271

At 31 December 2017, all borrowings were on floating interest rate except loans of RMB25,000,000 (2016: RMB20,000,000) which was under fixed interest rate.

At 31 December 2017, all bank loans were secured by the corporate guarantee provided by the Company (2016: Same). Borrowings of RMB35,150,000 (2016: RMB43,271,000) were secured by the pledged bank deposits and property, plant and equipment of RMB25,327,000 and RMB34,888,000 (2016: RMB29,919,000 and RMB37,704,000), respectively.

At 31 December 2017, the Group's borrowing, without considering the repayment on demand clause, were repayable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**49,121**	50,481
Between 1 and 2 years	**871**	936
Between 2 and 5 years	**2,612**	2,807
Over 5 years	**7,546**	9,047
	60,150	63,271

The carry amounts of the Group's borrowing are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	**25,000**	20,000
HKD	**35,150**	43,271
	60,150	63,271

22 Borrowings (Continued)

The effective interest rates per annum of the Group's borrowings as at the reporting date in the respective currencies are as follows:

	2017	2016
RMB	**5.01%**	4.13%
HKD	**2.00%**	1.78%

At 31 December 2017, the Group has undrawn borrowing facilities amounting to RMB15,651,000 (2016: RMB25,312,000).

23 Trade and other payables

	2017 RMB'000	2016 RMB'000
Non-current:		
Deposits received from customers (Note 19(b))	**5,294**	–
Current:		
Trade payables (i)	**49,933**	51,072
Bills payable (i)	**116,736**	107,175
	166,669	158,247
Amounts due to related parties (Note 33(b))	**914**	584
Other payables and accruals	**48,804**	56,000
Deposits received from customers (Note 19(b))	**562**	–
	216,949	214,831
	222,243	214,831

23 Trade and other payables (Continued)

(i) At 31 December 2017, the ageing analysis of trade and bills payable based on invoice date is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	**91,679**	58,890
After 3 months but within 6 months	**48,694**	51,518
After 6 months but within 1 year	**25,294**	47,839
Over 1 year	**1,002**	–
	166,669	158,247

(ii) As at 31 December 2017, bills payable were secured by the Group's pledged bank deposits, property, plant and equipment and land use right of RMB65,084,000, RMB10,357,000 and RMB5,095,000, respectively (2016: RMB59,112,000, RMB11,242,000 and RMB5,226,000).

(iii) The carrying amounts of the Group's trade and other payables and deposits received from customers are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	**204,434**	178,886
HKD	**5,401**	35,846
USD	**12,344**	99
Others	**64**	–
	222,243	214,831

24 Deferred income tax

(a) Deferred tax assets

The balance comprises temporary differences attributable to:

	2017 RMB'000	2016 RMB'000
Provision for impairment of trade receivables	**14,752**	11,740
Unrealised profit	**2,316**	2,008
Accrued expenses and other payables	**1,582**	1,868
Product warranty provision	**211**	199
Other	**1,489**	509
	20,350	16,324

24 Deferred income tax (Continued)

(a) Deferred tax assets (Continued)

The movement in deferred income tax assets during the year is as follows:

Deferred tax assets arising from:	Provision for impairment of trade receivables RMB'000	Unrealised profit RMB'000	Accrued expenses and other payables RMB'000	Product warranty provision RMB'000	Others RMB'000	Total RMB'000
Balance at 1 January 2016	5,492	2,317	2,713	215	123	10,860
Credited/(charged) to profit or loss	6,248	(309)	(845)	(16)	386	5,464
Balance at 31 December 2016	11,740	2,008	1,868	199	509	16,324
Balance at 1 January 2017	**11,740**	**2,008**	**1,868**	**199**	**509**	**16,324**
Credited/(charged) to profit or loss	**3,012**	**308**	**(286)**	**12**	**980**	**4,026**
Balance at 31 December 2017	**14,752**	**2,316**	**1,582**	**211**	**1,489**	**20,350**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB5,934,000 (2016: RMB2,627,000) in respect of losses amounting to RMB32,317,000 (2016: RMB15,921,000) that can be carried forward against future taxable income. Total unrecognised tax losses of RMB25,988,000 (2016: RMB15,012,000) can be carried forward indefinitely while unrecognised tax losses of RMB168,000 and RMB6,161,000 (2016: RMB909,000 and nil) will expire in 2021 and 2022, respectively.

(b) Deferred tax liabilities

The PRC corporate income tax law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated from 1 January 2008 to overseas shareholders. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities in respect of the undistributed earnings of the Company's PRC subsidiaries of approximately RMB368,057,000 at 31 December 2017 (2016: RMB315,007,000) as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

25 Share capital

Authorised:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	2,000,000,000	20,000,000

Issued and fully paid:

	Number of shares ('000)	HK$'000	RMB'000
At 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, 1 January 2017 and 31 December 2017	620,238	6,203	4,897

26 Share-based payments

The Group has adopted a share option scheme ("Share Option Scheme") under which directors, employees and other selected participants may be granted options to subscribe for shares of the Company as incentives for their services rendered to the Group pursuant to the shareholder resolution passed on 6 May 2015 and shall be valid and effective for a period of 10 years commencing from 6 May 2015.

On 20 April 2016 ("Date of Grant"), options to subscribe for an aggregate of 24,700,000 shares were granted to certain eligible participants under the share option scheme. The exercise price in respect of each option granted under the Share Option Scheme on the Date of Grant is HK$0.88 per share. Options will be vested in three tranches on 1 October 2016, 2017 and 2018 if participants are still in employment with the Group on the respective dates.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price in HK$ per share option	Number of share options ('000)
At 1 January 2016		
Granted	0.88	24,700
Exercised	0.88	(980)
Forfeited	0.88	(1,350)
At 31 December 2016, 1 January 2017 and 31 December 2017	0.88	22,370

As of 31 December 2017, out of the 22,370,000 outstanding options (2016: 22,370,000), 14,490,000 options were exercisable (2016: 7,080,000).

All share options outstanding as at 31 December 2017 will expire on 19 April 2021.

The weighted average fair value of options granted during the year ended 31 December 2016 determined using the binomial valuation model was HK$0.32 per option. The significant inputs into the model were share price of HK$0.86, exercise price shown above, expected option life of five years and annual risk-free interest rate of 0.94%. No options were granted during the year ended 31 December 2017.

27 Retained earnings

	RMB'000
At 1 January 2016	193,711
Loss for the year	(28,499)
Transfer to statutory reserve	(3,463)
At 31 December 2016	161,749
At 1 January 2017	**161,749**
Profit for the year	**21,157**
Transfer to statutory reserve	**(6,078)**
At 31 December 2017	**176,828**

28 Other reserves

	Share premium RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Total RMB'000
Balance at 1 January 2016	445,961	65,290	–	34,422	17,994	563,667
Total comprehensive income for the year	–	–	–	–	14,797	14,797
Employee share option scheme – grant of share options	–	–	3,921	–	–	3,921
Employee share option scheme – exercise of share options	752	–	–	–	–	752
Transfer to statutory reserve	–	–	–	3,463	–	3,463
Dividends	(17,317)	–	–	–	–	(17,317)
Balance at 31 December 2016 and 1 January 2017	**429,396**	**65,290**	**3,921**	**37,885**	**32,791**	**569,283**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(8,443)**	**(8,443)**
Employee share option scheme – grant of share options	**–**	**–**	**1,952**	**–**	**–**	**1,952**
Transfer to statutory reserve	**–**	**–**	**–**	**6,078**	**–**	**6,078**
Dividends	**(9,779)**	**–**	**–**	**–**	**–**	**(9,779)**
Balance at 31 December 2017	**419,617**	**65,290**	**5,873**	**43,963**	**24,348**	**559,091**

29 Dividends

Dividends to shareholders of the Company are as follows:

	2017 RMB'000	2016 RMB'000
No final dividend proposed after the end of reporting period (2016: HK1.8 cents (equivalent to RMB1.6 cents) per ordinary share)	–	9,995

The final dividend proposed after 31 December 2017 and 2016 were not recognised as a liability as at 31 December 2017 and 2016 respectively.

30 Note to consolidated statement of cash flows

(a) Cash (used in)/generated from operations

	2017 RMB'000	2016 RMB'000
Profit/(loss) before tax	**28,357**	(25,951)
Adjustments for:		
– Depreciation	**16,063**	13,821
– Amortisation	**864**	369
– Finance costs	**1,792**	2,661
– Interest income	**(5,406)**	(3,039)
– Share-based payment expenses	**1,952**	3,921
– Provision for impairment of trade and other receivables, net	**19,153**	38,315
– Loss on disposal of property, plant and equipment	**82**	606
– Fair value (gain)/loss on revaluation of investment property	**(691)**	704
Changes in working capital:		
– Inventories	**(49,687)**	(37,006)
– Trade and other receivables	**(29,757)**	(43,282)
– Finance lease receivables	**(45,016)**	(3,350)
– Restricted bank deposits pledged for bills payable	**(5,972)**	(57,242)
– Trade and other payables and deposits received from customers	**9,393**	110,085
Cash (used in)/generated from operations	**(58,873)**	612

30 Note to consolidated statement of cash flows (Continued)

(b) Liabilities arising from financing activities

	Borrowings RMB'000
As at 1 January 2016	103,381
Proceeds from borrowings	62,186
Repayments of borrowings	(104,375)
Foreign exchange adjustments	2,079
As at 31 December 2016 and 1 January 2017	**63,271**
Proceeds from borrowings	**32,501**
Repayments of borrowings	**(32,802)**
Foreign exchange adjustments	**(2,820)**
As at 31 December 2017	**60,150**

31 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2017 not provided for in the financial statements were as follows:

	2017 RMB'000	2016 RMB'000
Property, plant and equipment:		
Contracted for	**9,116**	2,250
Authorised but not contracted for	**8,159**	7,955
	17,275	10,205

(b) Operating lease commitments – as lessee

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases were as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**626**	798
After 1 year but within 5 years	**332**	30
	958	828

31 Commitments (Continued)

(c) Operating lease commitments – as lessor

At 31 December 2017, the total future minimum lease receivables in respect of the Group's investment property and machinery under non-cancellable operating leases were as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**6,990**	6,834
After 1 year but within 5 years	**–**	56
	6,990	6,890

32 Contingent liabilities

Certain customers of the Group finance their purchase of the Group's machinery products through finance leases provided by third-party leasing companies. Under the third-party leasing arrangements, the Group provides guarantee to the third-party leasing companies that in the event of customer default, the third-party leasing companies have the right to demand the Group to repay the outstanding lease payments due from the customers for the repossession of the leased machinery. As at 31 December 2017, the Group's maximum exposure to such guarantees was approximately RMB975,000 (2016: RMB6,634,000).

33 Related party transactions

The Group is controlled by Prima DG Investment Holding Company Limited (incorporated in the British Virgin Islands), which owns approximately 56% of the Company's shares. The remaining approximately 44% of the shares are widely held. The ultimate controlling party of the Group is Choi Family (Mr. Choi Hung Nang, Ms. Tin Suen Chu, Mr. Choi Hon Ting, Derek and Ms. Choi Kwan Li, Glendy).

(a) Transactions with related parties

During the year, save as disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties in the ordinary course of business:

	2017 RMB'000	2016 RMB'000
Finance lease income from a related party:		
– Entity jointly controlled by Choi Family and an independent third party	**182**	–
Rental expense to related parties:		
– Mr. Choi Hung Nang	**203**	203
– Entities controlled by Choi Family	**287**	631
	490	834

33 Related party transactions (Continued)

(a) Transactions with related parties (Continued)

The finance lease income was earned at terms mutually agreed with the related party in the ordinary course of the Group's business.

The rental expense was incurred at terms mutually agreed with these related parties in the ordinary course of the Group's business.

During the year ended 31 December 2016, the Group entered into a sale and purchase agreement with entities controlled by Choi Family to acquire leasehold land, buildings and investment property at a total consideration of HK$46,400,000 (equivalent to RMB40,210,000).

(b) Year end balances

	2017 **RMB'000**	2016 RMB'000
Included in other receivables:		
Amounts due from related parties		
– Ms. Choi Kwan Li, Glendy	**–**	32
– Entity controlled by Choi Family	**–**	3
– Mr. Lao Kam Chi	**–**	78
	–	113
Included in finance lease receivables:		
Amount due from a related party		
– Entity jointly controlled by Choi Family and an independent third party	**1,653**	–
Included in other payables:		
Amounts due to related parties		
– Mr. Choi Hung Nang	**547**	344
– Entities controlled by Choi Family	**367**	240
	914	584

Except for the finance lease receivable of RMB1,653,000 which was interest-bearing and repayable in three years, the amounts due from/to related parties were unsecured, interest free and repayable on demand.

(c) Key management compensation

The details of remuneration for key management personnel of the Group are set out in Note 35 and Note 8(b) to the consolidated financial statements.

34 Statement of financial position and reserve movement of the Company

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Interests in subsidiaries		**426,027**	442,640
Total non-current assets		**426,027**	442,640
Current assets			
Other receivables		**191**	489
Cash and cash equivalents		**568**	30,987
Total current assets		**759**	31,476
Total assets		**426,786**	474,116
Equity	(a)		
Share capital		**4,897**	4,897
Reserves		**420,889**	468,217
		425,786	473,114
Current liabilities			
Other payables		**1,000**	1,002
Total liabilities		**1,000**	1,002
Total equity and liabilities		**426,786**	474,116

The statement of financial position of the Company was approved by the Board of Directors on 28 March 2018 and signed on its behalf.

Choi Hung Nang	**Choi Kwan Li, Glendy**
Director	*Director*

34 Statement of financial position and reserve movement of the Company (Continued)

(a) Reserve movements of the Company

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2016	4,888	445,961	7,888	–	28,133	(21,818)	465,052
Total comprehensive income for the year	–	–	–	–	32,133	(11,436)	20,697
Employee share option scheme – grant of share options	–	–	–	3,921	–	–	3,921
Employee share option scheme – exercise of share options	9	752	–	–	–	–	761
Dividends	–	(17,317)	–	–	–	–	(17,317)
Balance at 31 December 2016 and 1 January 2017	**4,897**	**429,396**	**7,888**	**3,921**	**60,266**	**(33,254)**	**473,114**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(32,296)**	**(7,205)**	**(39,501)**
Employee share option scheme – grant of share options	**–**	**–**	**–**	**1,952**	**–**	**–**	**1,952**
Dividends	**–**	**(9,779)**	**–**	**–**	**–**	**–**	**(9,779)**
Balance at 31 December 2017	**4,897**	**419,617**	**7,888**	**5,873**	**27,970**	**(40,459)**	**425,786**

35 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

The remuneration of each director and the chief executive officer is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking for the year ended 31 December 2017				
	Director's fees RMB'000	Salaries, allowances and benefits in kind (including share-based compensation) RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Choi Hung Nang *(Chairman)*	156	2,048	–	–	2,204
Mr. Choi Hon Ting, Derek	156	1,164	–	23	1,343
Ms. Choi Kwan Li, Glendy *(Chief Executive Officer)*	156	1,624	–	23	1,803
Mr. Liu Tom Jing-zhi	156	1,103	–	23	1,282
Mr. Yu Ronghua *(passed away on 13 January 2018)*	156	847	–	23	1,026
Mr. Lao Kam Chi	156	1,222	–	23	1,401
Non-executive directors					
Mr. Chan Lewis	156	26	–	–	182
Mr. Alain Vincent Fontaine	156	–	–	–	156
Independent non-executive directors					
Mr. Law Wang Chak, Waltery	156	34	–	–	190
Mr. Li Zongjin	156	26	–	–	182
Mr. Lee Wai Yat, Paco	156	26	–	–	182
Mr. Fok Wai Shun, Wilson	156	34	–	–	190
	1,872	8,154	–	115	10,141

35 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (Continued)

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking for the year ended 31 December 2016				
	Director's fees RMB'000	Salaries, allowances and benefits in kind (including share-based compensation) RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Choi Hung Nang *(Chairman)*	156	2,303	–	–	2,459
Mr. Choi Hon Ting, Derek	156	1,181	–	20	1,357
Ms. Choi Kwan Li, Glendy *(Chief Executive Officer)*	156	1,899	–	24	2,079
Mr. Liu Tom Jing-zhi	156	1,150	–	24	1,330
Mr. Yu Ronghua *(passed away on 13 January 2018)*	156	1,160	–	8	1,324
Mr. Lao Kam Chi	156	1,320	–	24	1,500
Non-executive directors					
Mr. Chan Lewis	156	48	–	–	204
Mr. Alain Vincent Fontaine	59	–	–	–	59
Independent non-executive directors					
Mr. Law Wang Chak, Waltery	156	64	–	–	220
Mr. Li Zongjin	156	48	–	–	204
Mr. Lee Wai Yat, Paco	156	48	–	–	204
Mr. Fok Wai Shun, Wilson	156	64	–	–	220
	1,775	9,285	–	100	11,160

There were no amounts paid during the year to the directors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join (2016: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

No emoluments were paid or receivable in respect of directors' other services in connection with the management of affairs of the Company or its subsidiary for the year ended 31 December 2017 (2016: Nil).

There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies, corporate and connected entities (2016: Nil).

Except the transactions disclosed in Note 33(a), no other significant transactions, arrangements and contracts relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).