D&G TECHNOLOGY HOLDING COMPANY LIMITED
德 基 科 技 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1301)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the "Board" or the "Directors") of D&G Technology Holding Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2018 together with the comparative figures for the same period of last year, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		Unaudited	
		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**173,043**	238,563
Cost of sales		**(113,787)**	(142,820)
Gross profit		**59,256**	95,743
Other income and other gains, net	*6*	**1,220**	2,513
Distribution costs		**(28,851)**	(34,606)
Administrative expenses		**(70,703)**	(45,837)
Operating (loss)/profit	*7*	**(39,078)**	17,813
Finance income, net		**4,000**	738

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the six months ended 30 June 2018

		Unaudited	
		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
(Loss)/profit before income tax		**(35,078)**	18,551
Income tax credit/(expense)	*8*	**252**	(4,426)
(Loss)/profit for the period attributable to owners of the Company		**(34,826)**	14,125
(Loss)/earnings per share attributable to owners of the Company during the period			
– basic *(RMB cents)*	*9(a)*	**(5.61)**	2.28
– diluted *(RMB cents)*	*9(b)*	**(5.61)**	2.27

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
(Loss)/profit for the period	**(34,826)**	14,125
Other comprehensive loss for the period, net of tax		
Item that may be reclassified subsequently to profit or loss		
Currency translation differences	**(168)**	(4,250)
Total comprehensive (loss)/income attributable to owners of the Company for the period	**(34,994)**	9,875

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**161,768**	161,827
Land use right		**5,030**	5,095
Investment property		**12,236**	12,077
Intangible assets		**3,335**	3,788
Finance lease receivables		**23,079**	22,612
Prepayments		**1,002**	24
Deferred income tax assets		**23,613**	20,350
		230,063	225,773
Current assets			
Inventories		**266,626**	218,450
Contract assets		**365**	–
Trade and bills receivable	*10*	**316,259**	393,646
Finance lease receivables		**30,505**	25,754
Prepayments, deposits and other receivables		**21,919**	31,205
Pledged bank deposits		**80,976**	90,411
Cash and cash equivalents		**42,207**	42,708
		758,857	802,174
Total assets		**988,920**	1,027,947

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2018

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
EQUITY			
Share capital	13	**4,897**	4,897
Other reserves		**559,643**	559,091
Retained earnings		**139,809**	176,828
Total equity		**704,349**	740,816
LIABILITIES			
Non-current liability			
Deposits received from customers		**6,099**	5,294
Current liabilities			
Borrowings	11	**61,765**	60,150
Contract liabilities		**20,323**	–
Trade and other payables	12	**191,692**	216,387
Deposits received from customers		**1,963**	562
Income tax payable		**2,729**	4,738
Total current liabilities		**278,472**	281,837
Total liabilities		**284,571**	287,131
Total equity and liabilities		**988,920**	1,027,947

Notes

1. GENERAL INFORMATION

The Group is principally engaged in manufacturing, distribution, research and development and operating lease of asphalt mixing machinery and provision of machinery finance services.

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

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

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

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting".

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRS").

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

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies.

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 4 below. The other new and amended standards did not have material impact on the Group's accounting policies.

3. ACCOUNTING POLICIES (CONTINUED)

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group

		Effective for annual periods beginning on or after
Amendments to HKAS 28	Investment in Associates and Joint Ventures	1 January 2019
Amendments to HKFRS	Annual Improvements to HKFRSs 2015-2017 cycle	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKFRS 19	Employee Benefits	1 January 2019
HKFRS 16 *(Note)*	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
Revised Conceptual Framework for Financial Reporting		1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

Note: HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the interim condensed consolidated statement of financial position, 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.

The standard will affect primarily the accounting for the Group's operating leases. As at 30 June 2018, the Group had non-cancellable operating lease commitments of RMB1,222,000. Part of these are related to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, 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.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

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

4. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's consolidated financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

HKFRS 9 was generally adopted without restating comparative information. The Group used modified retrospective approach while adopting HKFRS 9. The reclassification and adjustments are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the opening interim condensed consolidated statement of financial position on 1 January 2018. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) are recognised in retained earnings as at 1 January 2018 and that comparatives are not restated.

The following tables show the adjustments recognised for each individual line item. The adjustments are explained in more details below.

Interim condensed consolidated statement of financial position (extract)	**31 December 2017 as originally presented**	**Effects of the adoption of HKFRS 9**	**Effects of the adoption of HKFRS 15**	**1 January 2018 Restated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Deferred income tax assets	20,350	444	–	20,794
Current assets				
Contract assets	–	–	380	380
Trade and bills receivable	393,646	(2,960)	–	390,686
Equity				
Retained earnings	176,828	(2,516)	323	174,635
Current liabilities				
Contract liabilities	–	–	18,910	18,910
Trade and other payables	216,387	–	(18,910)	197,477
Income tax payable	4,738	–	57	4,795

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	RMB'000
Opening retained earnings – HKAS 39	176,828
Increase in provision for impairment of trade receivables	(2,960)
Related tax effect of the above adjustment	444
Opening retained earnings – HKFRS 9	174,312

The Group has three types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Trade receivables
- Other receivables
- Finance lease receivables

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The Group makes estimates and assumptions concerning the futures which are discussed below:

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the customers' past settlement pattern, existing market conditions as well as forward looking estimates at the end of each reporting period.

While cash and cash equivalents and pledged bank deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables: The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

Other receivables and finance lease receivables: The impairment loss on other receivables and finance lease receivables was immaterial.

4. **CHANGES IN ACCOUNTING POLICIES (CONTINUED)**

(a) HKFRS 9 Financial Instruments – Impact of adoption (Continued)

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	RMB'000
At 31 December 2017 – HKAS 39	90,206
Amounts additionally provided through opening retained profits on adoption of HKFRS 9	2,960
Opening loss allowance as at 1 January 2018 – HKFRS 9	93,166

(b) HKFRS 9 Financial Instruments – Accounting policies

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other income and other gains, net", together with foreign exchange gains and losses.

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9 Financial Instruments – Accounting policies (Continued)

(ii) Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised as "other income and other gains, net" in the condensed consolidated statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(iii) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(c) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

HKFRS 15 replaces the provisions of HKAS 18 which resulted in changes accounting policies that relate to the presentation of contract assets and liabilities.

The impact on the Group's retained earnings as at 1 January 2018 is as follows:

	RMB'000
Retained earnings after HKFRS 9 restatement	174,312
Increase in contract assets related to cost to fulfil the contracts *(Note)*	380
Related tax effect of the above adjustment	(57)
Opening retained earnings – HKFRS 9 and HKFRS 15	174,635

Note: Management has identified certain shipping costs in respect of certain unsatisfied performance obligations as at 1 January 2018. As a consequence, the contract assets of RMB380,000 were recognised as at 1 January 2018.

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption (Continued)

The impact of the reclassification is as follows:

	Trade and other payables *RMB'000*	Contract liabilities *RMB'000*
Opening balance – HKAS 18	216,387	–
Reclassification *(Note)*	(18,910)	18,910
Opening balance – HKFRS 15	197,477	18,910

Note: The Group has changed the presentation of contract liabilities, which were previously included in trade and other payables, to reflect the terminology of HKFRS 15. The amount of contract liabilities represent deposits received from customers in respect of unsatisfied performance obligation relating to sales of asphalts mixing plants and spare parts and provision of equipment modification services as at 1 January 2018.

(d) HKFRS 15 Revenue from Contracts with Customers – Accounting policies

Sales of goods

The Group manufactures and sells asphalts mixing plants, spare parts and asphalt mixture. Revenue is recognised when the control of the products are transferred to the customers at a point in time, being products are delivered to and installed at the customers' premises and accepted by the customers, the customers have full discretion over the channel and price to sell the products and the use of the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Accordingly, the risks of obsolescence and loss have been transferred to the customers.

A receivable is recognised when the goods are delivered to and accepted by the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Equipment modification service income

Equipment modification service income is recognised when services are rendered.

Financing components

The Group adjusts the transaction prices at initial recognition for the time value of money in respect of certain sales of asphalts mixing plants as the Group expects that the period between the transfer of the promised goods to the customer and the payment by the customer exceeds one year; The Group does not adjust the transaction prices for the time value of money in respect of other sale transactions as the Group does not expect the collection of related trade receivables exceeds one year.

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 Group has determined that it only has one major operating segment which is the sales and operating and finance leases of asphalt mixing machinery and other relevant spare parts and provision of equipment modification services.

Revenue consists of the following:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Sales of asphalt mixing machinery	**137,326**	204,618
Sales of spare parts and provision of equipment modification services	**18,224**	10,298
Operating lease income of asphalt mixing machinery	**8,129**	21,879
Sales of bitumen tanks and equipment	**7,436**	–
Finance lease income	**1,928**	1,768
	173,043	238,563

(a) Revenue by selling location

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
People's Republic of China (the "PRC")	**144,610**	175,801
Outside PRC	**28,433**	62,762
	173,043	238,563

5. SEGMENT INFORMATION (CONTINUED)

(b) Non-current assets

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

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
The PRC	**129,122**	133,843
Outside PRC	**54,249**	48,968
	183,371	182,811

(c) Information about major customers

No customer with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2018. For the six months ended 30 June 2017, revenue of approximately RMB36,815,000 representing 15.4% of the Group's total revenue was derived from a single customer.

6. OTHER INCOME AND OTHER GAINS, NET

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Other income		
Government grants *(Note)*	**469**	700
Rental income	**161**	214
Others	**5**	–
	635	914
Other gains, net		
Net loss on disposal of property, plant and equipment	**–**	(52)
Exchange gain, net	**603**	1,514
Others	**(18)**	137
	585	1,599
	1,220	2,513

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

7. OPERATING (LOSS)/PROFIT

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Share-based payment expenses	**720**	1,172
Depreciation		
– Assets held for use under operating leases	**7,694**	5,024
– Other assets	**2,983**	2,785
Amortisation		
– Land use right	**65**	65
– Intangible assets	**454**	234
Provision for impairment of trade receivables, net	**36,749**	11,525

8. INCOME TAX CREDIT/(EXPENSE)

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**(2,840)**	(6,328)
– Over/(under)-provision in prior year	**273**	(188)
Deferred income tax	**2,819**	2,090
	252	(4,426)

No provision for Hong Kong profits tax was made for the current period (2017: Nil) as the Group had no assessable profits subject to Hong Kong profits tax for the period.

The Group's operations in the PRC are subject to PRC enterprise income tax at a statutory rate of 25% (2017: 25%).

According to the PRC enterprise income tax law and its relevant regulations, a wholly-owned subsidiary of the Company, Langfang D&G Machinery Technology Company Limited is qualified as a high-technology enterprise under the tax law and entitled to a preferential income tax rate of 15% (2017: 15%).

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

9. (LOSS)/EARNINGS PER SHARE

(a) Basic

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

The calculations of the basic (loss)/earnings per share are based on:

	Six months ended 30 June	
	2018	2017
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(34,826)**	14,125
Weighted average number of ordinary shares in issue	**620,238,000**	620,238,000
Basic (loss)/earnings per share *(expressed in RMB cents per share)*	**(5.61)**	2.28

(b) Diluted

Diluted loss per share for the period ended 30 June 2018 is the same as the basic loss per share as potential ordinary shares arising from share options were not treated as dilutive as the conversion to ordinary shares would not increase the loss per share.

The calculation of the diluted earnings per share was based on the profit for the period attributable to owners of the Company for the period ended 30 June 2017. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during that period, as used in the basic earnings 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 for the period ended 30 June 2017.

	Six months ended 30 June 2017
Profit attributable to owners of the Company *(RMB'000)*	14,125
Weighted average number of ordinary shares in issue	620,238,000
Effect of dilutive potential ordinary shares:	
Share options	1,277,958
Weighted average number of ordinary shares in issue for the purpose of diluted earnings per share	621,515,958
Diluted earnings per share *(expressed in RMB cents per share)*	2.27

10. TRADE AND BILLS RECEIVABLE

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Trade receivables	**445,674**	482,052
Less: provision for impairment	**(129,915)**	(90,206)
	315,759	391,846
Bills receivable	**500**	1,800
	316,259	393,646

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

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

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Less than 3 months	**93,786**	18,864
3 to 6 months	**41,003**	82,854
6 to 12 months	**96,983**	140,493
1 to 2 years	**93,800**	99,344
Over 2 years	**120,102**	140,497
	445,674	482,052

11. BORROWINGS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Secured bank loans	**61,765**	60,150

Movements in borrowings are analysed as follows:

	RMB'000
Balance at 1 January 2018	**60,150**
Repayments of borrowings	**(6,454)**
Proceeds from borrowings	**7,660**
Exchange difference	**409**
Balance at 30 June 2018	**61,765**
Balance at 1 January 2017	63,271
Repayments of borrowings	(29,567)
Proceeds from borrowings	22,050
Exchange difference	(1,172)
Balance at 30 June 2017	54,582

12. TRADE AND OTHER PAYABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Current:		
Trade payables	**79,000**	49,933
Bills payable	**75,932**	116,736
	154,932	166,669
Amounts due to related parties	**367**	914
Other payables and accruals	**36,393**	48,804
	191,692	216,387

At 30 June 2018, the ageing analysis of trade and bills payable based on invoice date is as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 3 months	**98,795**	91,679
After 3 months but within 6 months	**38,573**	48,694
After 6 months but within 1 year	**16,864**	25,294
Over 1 year	**700**	1,002
	154,932	166,669

13. SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

Authorised:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares *HK$*
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	2,000,000,000	20,000,000

Issued and fully paid:

	No. of shares *('000)*	*HK$'000*	*RMB'000*
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	620,238	6,203	4,897

(b) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

14. INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2018 (30 June 2017: Nil).

15. EVENT OCCURRING AFTER THE REPORTING PERIOD

On 4 May 2018, Topp Financial Services Holdings Company Limited ("Topp Financial") has entered into an investment agreement (the "Investment Agreement") with an independent third party, pursuant to which (1) Topp Financial agreed to transfer approximately 28.57% of the equity interests in Topp Financial Leasing (Shanghai) Co., Limited* ("Shanghai Topp") to the independent third party in consideration for a cash payment of RMB1.37 million and the assumption by the independent third party of the obligation to contribute the registered capital attributable to such 28.57% equity interests in the amount of RMB20 million (the "Transfer"), and (2) the independent third party agreed to subscribe for the entire amount of a proposed increase in the registered capital of Shanghai Topp of RMB80 million in two tranches of RMB30 million and RMB50 million respectively (the "Subscription"). Upon completion of the Transfer and the Subscription, Shanghai Topp will be held as to approximately 33.33% by Topp Financial and approximately 66.67% by the independent third party, and Shanghai Topp will cease to be a subsidiary of the Company. On 4 May 2018, Topp Financial and the independent third party also entered into a shareholders' agreement to regulate their respective rights in Shanghai Topp.

Subsequent to 30 June 2018, a new business license of Shanghai Topp has been issued by the authorised local branch of the PRC State Administration for Industry and Commerce on 25 July 2018. Shanghai Topp ceased to be a subsidiary of the Company since 25 July 2018 and the Group accounts for the investment in Shanghai Topp as an investment in an associate using equity method in the consolidated financial statements of the Group.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

General Review

In the first half of 2018, the Group continued to be a leading market player in the road construction and maintenance machinery industry, focusing on medium to large-scale asphalt mixing plants. The Group provided one-stop customised solutions to customers in the People's Republic of China ("PRC", "China" or "Mainland China") and overseas markets, specialising in the research and development, design, manufacturing and sale of conventional and recycling asphalt mixing plants.

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

During the six months ended 30 June 2018, the Group continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were seventeen (2017: twenty-eight) sales contracts of asphalt mixing plants completed by the Group during the period and the asphalt mixing plants were used in major highway construction and maintenance projects such as Zhejiang Expressway (杭甬高速), G306 Expressway (G306線大巴段公路項目), Ningbo-Taizhou-Wenzhou Expressway (甬台溫複線高速), etc. The China's infrastructure investment growth rate tumbled to 7.3 percent in the first half of 2018 from 21.1 percent in 2017. Hence the number of sales contracts completed during the period was adversely affected due to the delay in public-private partnership projects in China. The increasingly stringent environmental protection requirements in China also affected the progress of the Group's customers in obtaining local government approval for jobsite construction and hence caused delay in the installation and commissioning of asphalt mixing plants. Besides, the overseas road construction projects along the "One Belt One Road" countries also slowed down during the period, especially in Russia where the construction activities slowed down after the 2018 World Cup. As a result, revenue from sales of asphalt mixing plants decreased by approximately 32.9% during the period, whereas, the sales of asphalt mixing plants accounted for approximately 79.4% (2017: 85.8%) of the total revenue of the Group. For the same reason, the collection of outstanding trade receivables from the customers of the Group remained slow during the period and the Group has made additional provision for impairment loss of trade receivables of RMB36.7 million during the period.

The Group continued to expand its business and entered into potential markets along the "One Belt One Road" countries. Out of the seventeen sales contracts of asphalt mixing plants completed during the period, three were completed in overseas countries including Russia, Myanmar and Pakistan. During the period, the Group has successfully entered into its first operating lease contract of asphalt mixing plant with a local customer in Pakistan. The Group has also shipped the second asphalt mixing plant to Pakistan for the local operating lease business development. To further penetrate the markets in the developing countries, the Group has newly developed the compact mobile asphalt plants series to the product line. Together with the established overseas network, the Group expects to participate in more upcoming road construction projects along the "One Belt One Road" countries.

Disposal and Deemed Disposal of Equity Interests in a Wholly-owned Subsidiary

In order to enhance the Group's one-stop solution capability to customers, the Group has set up a wholly-owned subsidiary, Shanghai Topp, primarily engaged in the business of finance leasing of road construction equipment in March 2016. On 4 May 2018, Topp Financial has entered into the Investment Agreement with Kerry Logistics (China) Investment Company Limited* ("Kerry Logistics"), pursuant to which (1) Topp Financial agreed to transfer approximately 28.57% of the equity interests in Shanghai Topp to Kerry Logistics in consideration for a cash payment of RMB1.37 million and the assumption by Kerry Logistics of the obligation to contribute the registered capital attributable to such 28.57% equity interests in the amount of RMB20 million (the "Transfer"), and (2) Kerry Logistics agreed to subscribe for the entire amount of a proposed increase in the registered capital of Shanghai Topp of RMB80 million in two tranches of RMB30 million and RMB50 million respectively (the "Subscription"). Upon completion of the Transfer and the Subscription, Shanghai Topp will be held as to approximately 33.33% by Topp Financial and approximately 66.67% by Kerry Logistics, and Shanghai Topp will cease to be a subsidiary of the Company. On 4 May 2018, Topp Financial and Kerry Logistics also entered into a shareholders' agreement to regulate their respective rights in Shanghai Topp.

* *For identification purpose only*

Pursuant to the Investment Agreement, the completion of the Transfer and of the first tranche of the Subscription is deemed to take place on the date on which a new business license of Shanghai Topp is issued by the authorised local branch of the PRC State Administration for Industry and Commerce ("AIC"). Completion of the second tranche of the Subscription shall take place on or before 31 December 2018 when Kerry Logistics deposits RMB50 million into the bank account designated by Shanghai Topp. For details of the transaction, please refer to the Company's announcement dated 4 May 2018.

Both Kerry Logistics and the Group consider the Belt and Road Initiative as an important strategic focus of their respective businesses and have been establishing and expanding their presence in the "One Belt One Road" countries in recent years. Through the strategic cooperation, the Group expects to generate significant business synergy with Kerry Logistics and enhance the development of its operations in the "One Belt One Road" countries. Kerry Logistics' investment in Shanghai Topp will not only strengthen the capital position of the Group in the development of the finance leasing business, but will also serve as a first step for the two parties to further explore collaboration opportunities under the Belt and Road initiative.

Subsequent to 30 June 2018, a new business license of Shanghai Topp has been issued by the AIC on 25 July 2018. Shanghai Topp ceased to be a subsidiary of the Company since 25 July 2018 and became an associate of the Group.

Development of Upstream and Downstream Asphalt Related Business

Asphalt mixture is the essential asphalt road construction material. The Group is committed to the development of asphalt related business along the supply chain with an aim to broaden income sources and raise profits. In order to leverage the synergies of local expertise, the Group has been exploring potential strategic partners in the PRC to develop the production and sale of asphalt mixtures business.

In order to provide one-stop solution to the Group's customers along the "One Belt One Road" countries, during the period, the Group completed two contracts to supply bitumen tanks and equipment to its customers with road construction projects in Pakistan. In view of the increasing demand for raw materials and equipment for road construction in the "One Belt One Road" countries, the Group shall grasp every opportunity to develop the raw materials and equipment supply chain business.

During the period, the Group continued to conduct research on the combustion technology in order to develop the business of manufacturing and sale of burner combustion equipment and the provision of related technical support services. The burner combustion equipment can be applied in a wide spectrum including asphalt mixing plants, furnace, heating system, etc. As at 30 June 2018, eleven patents of combustion technology were registered, nineteen patents and two software copyrights were pending registration.

Research and Development

To maintain its position as a leading market player in the road construction and maintenance machinery industry focusing on medium to large-scale asphalt mixing plants, the Group continued to maintain its strong research and development capabilities. As at 30 June 2018, the Group had sixty registered patents in the PRC (of which four were invention patents) and twenty four software copyrights. In addition, six patents were pending registration as at 30 June 2018.

Marketing and Awards

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

During the period, the Group participated in various promotional events and technical seminars such as the China Construction Machinery Association Road Machine Chapter held in Hangzhou and the International Engineering & Machinery Asia held in Pakistan.

In June 2018, the Group was awarded as an “EcoChallenger” in the BOCHK Corporate Environmental Leadership Awards which was organised 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. Glendy Choi, the Group’s chief executive officer, was invited to be one of the guest speakers of the forum held on 5 May 2018 on “How does our Environmental Industry seize the opportunities brought by the ‘Guangdong – Hong Kong – Macao Bay Area’ Development & ‘The Belt and Road Initiative’”. The forum was organised by Hong Kong Green Strategy Alliance. During the forum, Ms. Glendy Choi shared the environmental practices and experience of the Group and how the Group seized the opportunities and tackled the challenges under “The Belt and Road Initiative”. The forum received keen and positive responses with attendance from over 150 officials and professionals from the environmental industry.

In August 2018, the Group was awarded as the China Top 30 Construction Machinery Manufacturers ranked 18th. The award was jointly organised by the China Construction Machinery Industry Association, the American Equipment Manufacturers Association and the Korea Construction Machinery Manufacturers Association. This is the eighth consecutive year that the Group was recognised 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 light of growing awareness on environmental protection issues during the asphalt mixture production among the road construction and maintenance companies and the PRC government's emphasis on reducing pollution from industrial sector, the demand for our recycling and environmentally-friendly products continue to grow. There will be increasing demand for the recycling asphalt plants as well as the modification services of adding recycling and environmental protection functions to existing plants. The Group will further promote green technology innovation and continue to improve its competitive advantage so as to reinforce its leading position in the market.

Investment in infrastructure overseas is a way of building up strategic partnerships with countries along the "One Belt One Road" region for the PRC government. The Group continues to participate 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". The Group is honored to participate in the major infrastructure construction projects along the regions and is prepared for more projects in the future.

Since the technologies of the Group's asphalt mixing plants are widely adopted in countries except the United States of America (the "US"), the Group does not export its products to the US. The US-China trade war does not have direct impact on the Group's performance during the period. However, the Group expects that the ongoing trade war may affect the economies of some of the "One Belt One Road" countries which will indirectly affect the Group's export businesses.

During the period, the Group's performance was affected by the delay in public-private partnership projects and the delay in the installation and commissioning of asphalt mixing plants as a result of the increasingly stringent environmental protection requirements in China. The weak local currencies against US dollar in Russia, India and Pakistan also affected the Group's performance during the period. Having said that, the Group expects that the demand for asphalt mixing plants in the second half of 2018 shall gradually increase as the PRC government has injected fund into domestic infrastructure projects to help soften the possible blow to the economy from the US-China trade war. The management expects the customers shall accelerate the settlements going forward as more road projects shall be in place in China. With its established overseas network and high-technology asphalt mixing plants, the Group is prepared to grasp the opportunities of upgrading of asphalt mixing plant technology and equipment in countries such as India and in the ASEAN region. To utilize the Group's wide clientele base of over 500 asphalt plants spreading the whole PRC and 31 nations overseas, the Group is also exploring business opportunities in developing business upstream into the road construction and maintenance materials supply chain and downstream into the asphalt mixture provision. The Group will however manage its business development strategies cautiously due to the relatively volatile international economic and political condition.

FINANCIAL REVIEW

During the six months ended 30 June 2018, the Group recorded a total revenue of RMB173,043,000 (2017: RMB238,563,000), representing a decrease of approximately 27.5% as compared to the last corresponding period. Gross profit decreased from RMB95,743,000 for the six months ended 30 June 2017 to RMB59,256,000 for the six months ended 30 June 2018, representing a decrease of approximately 38.1%. Gross profit margin decreased by 5.9 percentage points from 40.1% to 34.2%. The Group recorded a net loss attributable to owners of the Company of RMB34,826,000 compared with a net profit of RMB14,125,000 in the last corresponding period.

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	*RMB'000*	
Sales of asphalt mixing plants	**137,326**	204,618	-32.9%
Sales of spare parts and provision of equipment modification services	**18,224**	10,298	+77.0%
Operating lease income of asphalt mixing plants	**8,129**	21,879	-62.8%
Sales of bitumen tanks and equipment	**7,436**	–	N/A
Finance lease income	**1,928**	1,768	+9.0%
	173,043	238,563	-27.5%

Sales of Asphalt Mixing Plants

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	*RMB'000*	
Revenue	**137,326**	204,618	-32.9%
Gross profit	**47,589**	78,579	-39.4%
Gross profit margin	**34.7%**	38.4%	-3.7pp
Number of contracts	**17**	28	-11
Average contract value	**8,078**	7,308	+10.5%

Revenue from the sales of asphalt mixing plants decreased as a result of the decrease in number of contracts and the decrease was partially offset by the increase in the average contract value. The decrease in number of contracts was mainly due to the delay in public-private partnership projects in China and increasingly stringent environmental protection requirements in China which resulted in the delay in the installation and commissioning of asphalt mixing plants. The slow down of overseas road construction activities also led to the decrease in overseas sales. The increase in the average contract value was primarily due to the higher demand for customisation of Recycling Plants which usually have a higher average contract value than standardised Conventional Plants. The gross profit margin decreased by 3.7 percentage points to 34.7% during the period was mainly due to the decrease in the number of Recycling Plants sold during the period. Since the gross profit margin of the Recycling Plants is usually higher than the Conventional Plants, the change in sales mix resulted in a decrease in gross profit margin.

By Types of Plants

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	*RMB'000*	
Recycling Plant			
Revenue	**85,599**	125,803	-32.0%
Gross profit	**30,343**	53,114	-42.9%
Gross profit margin	**35.4%**	42.2%	-6.8pp
Number of contracts	**9**	17	-8
Average contract value	**9,511**	7,400	+28.5%
Conventional Plant			
Revenue	**51,727**	78,815	-34.4%
Gross profit	**17,246**	25,465	-32.3%
Gross profit margin	**33.3%**	32.3%	+1.0pp
Number of contracts	**8**	11	-3
Average contract value	**6,466**	7,165	-9.8%

Revenue from the sales of Recycling Plants decreased by 32.0% which was mainly due to the decrease in the number of contracts completed and the decrease was partially offset by the increase in the average contract value during the period. The gross profit margin decreased by 6.8 percentage points to 35.4% during the period was mainly due to the decrease in the number of Recycling Plants with higher capacity (usually with higher gross profit margin) sold as compared to the last corresponding period. The increase in the average contract value was mainly due to higher degree of customisation of the Recycling Plants sold during the period.

Revenue from the sales of Conventional Plants decreased by 34.4% primarily because of the decrease in both the number of contracts and the average contract value during the period. The decrease in the average contract value was mainly because of relatively more asphalt mixing plants sold with smaller capacity during the period.

By Geographical Location

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	*RMB'000*	
PRC			
Revenue	**116,787**	142,003	-17.8%
Gross profit	**40,473**	59,560	-32.0%
Gross profit margin	**34.7%**	41.9%	-7.2pp
Number of contracts	**14**	19	-5
Average contract value	**8,342**	7,474	+11.6%
Overseas			
Revenue	**20,539**	62,615	-67.2%
Gross profit	**7,116**	19,019	-62.6%
Gross profit margin	**34.6%**	30.4%	+4.2pp
Number of contracts	**3**	9	-6
Average contract value	**6,846**	6,957	-1.6%

Revenue from the PRC sales decreased primarily because of the decrease in the number of contracts completed and the decrease was partially offset by the increase in the average contract value. The decrease in gross profit margin by 7.2 percentage points to 34.7% during the period was mainly due to the decrease in the number of Recycling Plants with higher capacity (i.e. 4000 model series or above) sold during the period which have higher gross profit margin than plants with lower capacity. The increase in the average contract value was mainly due to the more stringent environmental protection requirements in China, resulting in higher degree of customisation.

Revenue from the overseas sales decreased mainly because of the decrease in number of contracts completed. The average contract value remained relatively stable during the period. The gross profit margin increased by 4.2 percentage points to 34.6% was mainly due to a Conventional Plant sold to Russia had a higher degree of customisation.

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

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	*RMB'000*	
Revenue	**18,224**	10,298	+77.0%
Gross profit	**6,648**	4,681	+42.0%
Gross profit margin	**36.5%**	45.5%	-9.0pp

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

Revenue from sales of spare parts and components and provision of equipment modification services amounted to approximately RMB10,400,000 and RMB7,824,000, respectively (2017: RMB8,780,000 and RMB1,518,000 respectively). Increase in sales of spare parts and components was mainly due to increased demand from customers for repair and maintenance of asphalt mixing plants. Increase in revenue from provision of equipment modification services was mainly due to increased demand for modification services from customer as a result of the increasingly stringent environmental protection requirements in China. Gross profit margin decreased by 9.0 percentage points during the period because more competitive pricing was given to the customers in order to attract new spare parts and modification service customers.

Operating lease income of asphalt mixing plants

The Group offered operating lease of asphalt mixing plants directly to its customers which generally need asphalt mixing plants on a project basis. The lease contracts 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 62.8% primarily because the total volume of productions during the period decreased as compared with the last corresponding period. The decrease in production output by customers was also due to the delay in public-private partnership projects in China resulting many operating lease projects in pending status. During the period, the Group recorded a gross loss for its operating lease business of approximately RMB386,000 (2017: Gross profit of RMB10,715,000). The gross loss was mainly because of the decrease in customers' production of asphalt mixtures and hence the revenue could not cover the fixed overheads, including but not limited to staff costs and depreciation, charged during the period. The number of plants held for operating lease as at 30 June 2018 was thirteen as compared with ten as at 30 June 2017.

Sales of bitumen tanks and equipment

During the period, the Group completed two contract, with total contract value of approximately RMB7,436,000, of bitumen tanks and equipment supply to customers in Pakistan. The Group considered the supply of bitumen tanks and equipment as auxiliary services to its customers developing along the "One Belt One Road" countries and will grasp the potential business opportunities to develop asphalt mixture related business.

Other Income and Other Gains, Net

During the period, other income and other gains, net mainly represented net exchange gains arising from trading transactions and translation of pledged bank deposits, rental income and government grants. The decrease was mainly due to the decrease in net exchange gains to RMB0.9 million (2017: RMB1.5 million).

Distribution Costs

Distribution costs mainly consisted of staff costs of our sales and marketing staff, distribution fees to our distributors, freight and transportation expenses, and marketing expenses. Distribution costs represented about 16.7% (2017: 14.5%) of revenue for the six months ended 30 June 2018. Decrease in distribution costs was mainly due to the decrease in sales of asphalt mixing plants through distributors during the period.

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses, legal and professional fees, provision for impairment loss of trade receivables. During the period, administrative expenses increased by approximately RMB24.9 million which was mainly due to the increase of net provision for impairment loss of trade receivables to approximately RMB36.7 million (2017: RMB11.5 million) and the increase was partially offset by the decrease in research and development expenses to RMB5.2 million (2017: RMB10.1 million).

Finance Income, Net

Finance income, net mainly included bank interest income and interest income on unwinding discounted trade receivables offset by interest expenses on interest-bearing bank borrowings. The income during the period was mainly due to the increase in interest income on unwinding discounted trade receivables to RMB5.0 million (2017: RMB1.5 million).

Income Tax Credit/(Expense)

The income tax credit for the period ended 30 June 2018 was mainly attributable to the deferred tax credit arisen from the provision for impairment loss of trade receivables of a subsidiary of the Company which is a "high-technology enterprise" entitled to a preferential tax rate of 15%.

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company amounted to approximately RMB34.8 million for the period ended 30 June 2018 compared with the profit attributable to owners of the Company of approximately RMB14.1 million for the period ended 30 June 2017. The loss for the period was mainly due to the decrease in revenue and increase in provision for impairment loss of trade receivables as discussed above.

Working Capital Management

Net current assets of the Group amounted to RMB480,385,000 (31 December 2017: RMB520,337,000) with a current ratio of 2.7 times (31 December 2017: 2.8 times) as at 30 June 2018.

Inventories increased by RMB48,176,000 from RMB218,450,000 as at 31 December 2017 to RMB266,626,000 as at 30 June 2018. Inventory turnover days was 386 days for the six months ended 30 June 2018, representing an increase of 131 days as compared to 255 days for the year ended 31 December 2017. The increase in inventories was mainly due to the increase in raw materials purchased for sales contracts signed but the projects have been delayed due to postpone of the public-private partnership projects or pending of environmental permit approvals. The increase in inventory turnover days was mainly because of the delay in construction projects in China resulted in the decrease in finished goods delivered and accepted by customers during the period.

Trade and bills receivable decreased by RMB77,387,000 from RMB393,646,000 as at 31 December 2017 to RMB316,259,000 as at 30 June 2018. Trade and bills receivable turnover days was 371 days for the six months ended 30 June 2018, representing an increase of 55 days as compared to 316 days for the year ended 31 December 2017. Decrease in trade and bills receivable was primarily due to the impairment loss of RMB36.7 million provided during the period. The increase in trade and bills receivable turnover days during the period was primarily due to (1) the delay in settlement from some of the PRC customers; (2) decrease in PRC contracts with finance lease as payment method; (3) the decrease in overseas sales of asphalt mixing plants of which majority of contract sum were settled prior to shipment; and (4) the decrease in deposits placed by customers, especially sales to Chinese state-owned enterprises, during the period. The Group will continue to cautiously monitor the trade receivables collection process so as to improve the collection cycle.

Trade and bills payable decreased by RMB11,737,000 from RMB166,669,000 as at 31 December 2017 to RMB154,932,000 as at 30 June 2018. Trade and bills payable turnover days was 216 days for the six months ended 30 June 2018, representing an increase of 26 days as compared to 190 days for the year ended 31 December 2017. The decrease in trade and bills payable was due to the decrease in purchase during the period. The increase in trade and bills payable turnover days was mainly because of extended payment to suppliers and contractors.

Liquidity and Financial Resources

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

As at 30 June 2018, the Group had cash and cash equivalents of RMB42,207,000 (31 December 2017: RMB42,708,000) and pledged bank deposits of RMB80,976,000 (31 December 2017: RMB90,411,000). In addition, the Group had interest-bearing bank borrowings of RMB61,765,000 (31 December 2017: RMB60,150,000). The Group's cash and cash equivalents, pledged bank deposits and borrowings were mostly denominated in Renminbi, Hong Kong dollars and US dollars. The borrowings were mainly arranged on a floating rate basis. The gearing ratio, calculated as total bank borrowings divided by equity attributable to the owners of the Company, amounted to 8.8% (31 December 2017: 8.1%).

During the six months ended 30 June 2018, the Group recorded cash generated from operating activities of RMB10,336,000 (six months ended 30 June 2017: cash outflow from operating activities RMB77,012,000). Net cash used in investing activities amounted to RMB8,485,000 (six months ended 30 June 2017: RMB3,065,000) for the six months ended 30 June 2018. Net cash used in financing activities for the six months ended 30 June 2018 amounted to RMB2,037,000 (six months ended 30 June 2017: RMB22,652,000).

Capital Commitments and Contingent Liabilities

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

	At 30 June 2018	At 31 December 2017
	RMB'000	*RMB'000*
Contracted for	**4,745**	9,116
Authorised but not contracted for	**2,917**	8,159

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 30 June 2018, the Group did not have any exposure to such guarantees (31 December 2017: RMB975,000).

Pledge of Assets

As at 30 June 2018, property, plant and equipment of RMB45,167,000 (31 December 2017: RMB45,245,000), land use right of RMB5,030,000 (31 December 2017: RMB5,095,000) and bank deposits of RMB80,976,000 (31 December 2017: RMB90,411,000) were pledged for loans and borrowings 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 US dollars and Euros. The appreciation or depreciation of Renminbi against these foreign currencies would increase or decrease the price of the Group's products which were sold to overseas market and might bring negative or positive impact on the Group's export sales. On the other hand, the appreciation or depreciation of Renminbi would also decrease or increase the cost of sales of the Group in respect of the purchases of raw materials from overseas. The management has continuously monitored the level of exchange rate exposure and shall adopt financial hedging instruments for hedging purpose when necessary. The Group did not use any financial instruments for hedging purpose for the six months ended 30 June 2018.

Significant Investments and Material Acquisitions or Disposals

Save as disclosed above under the section headed "Disposal and Deemed Disposal of Equity Interests in a Wholly-owned Subsidiary" in the Business Review section, during the six months ended 30 June 2018, the Group did not have any significant investments or material acquisitions or disposals.

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 30 June 2018, the unutilised proceeds were deposited in licensed banks in Hong Kong and China.

	Original allocation	**Revised allocation as at 1 March 2017**	**Utilised amount as at 30 June 2018**	**Unutilised amount as at 30 June 2018**
	RMB' million	*RMB' million*	*RMB' million*	*RMB' million*
Expansion of the manufacturing facilities				
Acquisition of land	39.6	–	–	–
Development and construction of the manufacturing facilities	65.9	31.5	31.5	–
Purchase of equipment for the manufacturing facilities	26.4	7.2	7.2	–
Research and development	52.8	52.8	44.6	8.2
Development of new business	26.4	72.0	72.0	–
Expansion of the sales and distribution networks and promotional activities	26.4	26.4	25.2	1.2
Working capital and general corporate purposes	26.4	74.0	74.0	–
	263.9	263.9	254.5	9.4

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had approximately 446 (31 December 2017: 445) employees. The total staff costs for the six months ended 30 June 2018 amounted to approximately RMB34,626,000 (six months ended 30 June 2017: RMB32,145,000).

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 Company 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. During the six months ended 30 June 2018, the Company granted 5,100,000 share options to its employees and 18,000,000 share options to the Directors (2017: Nil).

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2018.

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the six months ended 30 June 2018, the Company has, in the opinion of the Directors, complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS

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

REVIEW OF INTERIM RESULTS

The Company has an audit committee (the "Audit Committee") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control systems. The Audit Committee comprises four members, namely Mr. Law Wang Chak, Waltery (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson. All of them are independent non-executive Directors. The interim results of the Group for the six months ended 30 June 2018 have been reviewed by the Audit Committee.

The Company's auditor, PricewaterhouseCoopers, has also reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

The 2018 interim report will also be published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.dgtechnology.com and will be despatched to the shareholders of the Company in due course.

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

Hong Kong, 29 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Choi Hung Nang, Ms. Choi Kwan Li, Glendy, Mr. Choi Hon Ting, Derek, Mr. Liu Tom Jing-zhi and Mr. Lao Kam Chi; the non-executive directors of the Company are Mr. Chan Lewis and Mr. Alain Vincent Fontaine; and the independent non-executive directors of the Company are Mr. Law Wang Chak, Waltery, Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson.