德基科技

D&G TECHNOLOGY

D&G TECHNOLOGY HOLDING COMPANY LIMITED

<INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY>

STOCK CODE 1301

INTERIM REPORT 2018

環保優秀企業 EcoChallenger 中銀香港 | BOCHK 企業環保領先大獎 2017 Corporate Environmental Leadership Awards 2017

3 Years + 環保先驅 EcoPioneer 中銀香港 | BOCHK 企業環保領先大獎 2017 Corporate Environmental Leadership Awards 2017

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

INDUSTRY CARES 工業獻愛心

Design, Printing & Production by GenNex Financial Media Limited www.gennexfm.com

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC™ C102068

CONTENTS

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

Registered Office

Cricket Square,
Hutchins Drive, PO Box 2681,
Grand Cayman, KY1-1111,
Cayman Islands

Principal Place of Business in Hong Kong

7/F, Hing Lung Commercial Building,
68-74 Bonham Strand,
Sheung Wan,
Hong Kong

Principal Place of Business in the PRC

No.12 Yinghua Road, Yongqing Industrial Park,
Yongqing County, Langfang City, Hebei Province,
PRC

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 22 Hopewell Centre,
183 Queen's Road East,
Hong Kong

Cayman Islands Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square,
Hutchins Drive, PO Box 2681,
Grand Cayman, KY1-1111,
Cayman Islands

Auditor

PricewaterhouseCoopers

Legal Advisor

MinterEllison LLP

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

Management Discussion and Analysis

Business Review

General Review

In the first half of 2018, D&G Technology Holding Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") continued to be a leading market player in the road construction and maintenance machinery industry, 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% in the first half of 2018 from 21.1% 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.

Management Discussion and Analysis

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, Topp Financial Leasing (Shanghai) Co., Ltd* ("**Shanghai Topp**"), primarily engaged in the business of finance leasing of road construction equipment in March 2016. On 4 May 2018, Topp Financial Services Holdings Company Limited ("**Topp Financial**") has entered into an investment agreement (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.

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.

* *For identification purpose only*

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 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 across 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 RMB'000	2017 RMB'000	Change
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 RMB'000	2017 RMB'000	Change
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%

Management Discussion and Analysis

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 RMB'000	2017 RMB'000	Change
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 in 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 contracts, 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.

Management Discussion and Analysis

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses, legal and professional fees, and 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 postponement 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, resulting 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 RMB'000	At 31 December 2017 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.

Management Discussion and Analysis

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 RMB' million	**Revised allocation as at 1 March 2017** RMB' million	**Utilised amount as at 30 June 2018** RMB' million	**Unutilised amount as at 30 June 2018** 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

Other Information

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

As at 30 June 2018, the interests or short positions of the directors of the Company (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 of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (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]	8,000,000	1.29%
Ms. Choi Kwan Li, Glendy	Long	Beneficial owner	150,000	0.02%
	Long	Beneficial owner[2]	8,000,000	1.29%
Mr. Choi Hon Ting, Derek	Long	Beneficial owner	150,000	0.02%
	Long	Beneficial owner[2]	8,000,000	1.29%
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]	4,000,000	0.64%
Mr. Lao Kam Chi	Long	Interest in controlled corporation[5]	9,000,000	1.45%
	Long	Beneficial owner[4]	4,000,000	0.64%
Mr. Yu Ronghua *(passed away on 13 January 2018)*	Long	Interest in controlled corporation[10]	13,500,000	2.18%
	Long	Beneficial owner[11]	1,300,000	0.21%
Mr. Chan Lewis	Long	Beneficial owner[6]	600,000	0.10%
Mr. Alain Vincent Fontaine	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]	670,000	0.11%
Mr. Li Zongjin	Long	Beneficial owner[6]	600,000	0.10%
Mr. Lee Wai Yat, Paco	Long	Beneficial owner[6]	600,000	0.10%
Mr. Fok Wai Shun, Wilson	Long	Beneficial owner[9]	800,000	0.13%

(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 and 4,000,000 share options during the period ended 30 June 2018 under the share option scheme of the Company adopted on 6 May 2015 (the "**Share Option Scheme**") and was deemed to be interested in 8,000,000 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 and Mr. Lao Kam Chi was granted 2,000,000 share options during the year ended 31 December 2016 and 2,000,000 share options during the period ended 30 June 2018 under the Share Option Scheme and was deemed to be interested in 4,000,000 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. 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 and 300,000 share options during the period ended 30 June 2018 under the Share Option Scheme and was deemed to be interested in 600,000 underlying shares in respect of the share options granted.
7. Mr. Alain Vincent Fontaine was granted 300,000 share options during period ended 30 June 2018 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 during the year ended 31 December 2016 and 400,000 share options during the period ended 30 June 2018 under the Share Option Scheme. 130,000 share options were exercised during the year ended 31 December 2016. He was deemed to be interested in 670,000 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 and 400,000 share options during the period ended 30 June 2018 under the Share Option Scheme and was deemed to be interested in 800,000 underlying shares in respect of the share options granted.
10. 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 is interested.
11. Mr. Yu was granted 2,000,000 share options during the year ended 31 December 2016 under the Share Option Scheme. As at the date of death of Mr. Yu, 1,300,000 share options became vested and 700,000 share options remained unvested. Pursuant to the Share Option Scheme, his personal representative(s) may exercise all his vested 1,300,000 share options within a period of six months of his death. The board of directors of the Company (the "**Board**") has resolved to extend the exercise period by six months and the exercise period of the vested 1,300,000 share options has been extended to 12 January 2019. He was deemed to be interested in 1,300,000 underlying shares in respect of the share options granted.

Save as disclosed above, as at 30 June 2018, 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.

Other Information

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

As at 30 June 2018, 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	8,000,000	1.29%
Ms. Tin Suen Chu[1]	Long	Interest of spouse	360,088,000	58.06%
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 30 June 2018, 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 "**Limit**"), i.e. 60,000,000 Shares representing approximately 9.67% of the issued Shares as at the date of this interim 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 and 5 June 2018 (the "**Dates of Grant**"), options to subscribe for an aggregate of 24,700,000 Shares and 23,100,000 Shares were granted respectively to certain Eligible Participants under the Share Option Scheme. The exercise price in respect of each option granted under the Share Option Scheme on 20 April 2016 and 5 June 2018 is HK$0.88 and HK$1.12 per Share respectively. The adjusted closing price of the Shares immediately before the Dates of Grant was HK$0.866 and HK$1.120 per Share respectively. There was no Eligible Participant with options granted in excess of the individual limit.

During the six months ended 30 June 2018, out of the above share options granted, none was exercised or cancelled while 1,300,000 share options lapsed.

The fair values of the share options granted on 20 April 2016 and 5 June 2018 were HK$7,823,400 (equivalent to approximately RMB6,780,000) and HK$10,279,500 (equivalent to approximately RMB8,391,300) respectively.

The fair value of the share options granted on 5 June 2018 was estimated as at that date by an independent firm of professionally qualified valuers using the binomial option pricing model and 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.

Other Information

Particulars and movements of share options granted under the Share Option Scheme for the period ended 30 June 2018 were as follows:

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2018	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2018
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
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	2,000,000	–	–	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	2,000,000	–	–	2,000,000
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
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	2,000,000	–	–	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	2,000,000	–	–	2,000,000
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
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	2,000,000	–	–	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	2,000,000	–	–	2,000,000
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
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	1,000,000	–	–	1,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	1,000,000	–	–	1,000,000
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
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	1,000,000	–	–	1,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	1,000,000	–	–	1,000,000
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. Alain Vincent Fontaine	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	150,000	–	–	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	150,000	–	–	150,000
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
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	150,000	–	–	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	150,000	–	–	150,000
Mr. Law Wang Chak,	20/4/2016	1/10/2017 – 19/4/2021	HK$0.88	130,000	–	–	–	130,000
Waltery	20/4/2016	1/10/2018 – 19/4/2021	HK$0.88	140,000	–	–	–	140,000
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	200,000	–	–	200,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	200,000	–	–	200,000
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
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	150,000	–	–	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	150,000	–	–	150,000

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2018	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2018
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
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	150,000	–	–	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	150,000	–	–	150,000
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
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	200,000	–	–	200,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	200,000	–	–	200,000
				19,570,000	18,000,000	–	(700,000)	36,870,000
Other employees								
In aggregate	20/4/2016	1/10/2016 – 19/4/2021	HK$0.88	800,000	–	–	(200,000)	600,000
	20/4/2016	1/10/2017 – 19/4/2021	HK$0.88	1,000,000	–	–	(200,000)	800,000
	20/4/2016	1/10/2018 – 19/4/2021	HK$0.88	1,000,000	–	–	(200,000)	800,000
	5/6/2018	1/10/2019 – 4/6/2023	HK$1.12	–	2,550,000	–	–	2,550,000
	5/6/2018	1/10/2020 – 4/6/2023	HK$1.12	–	2,550,000	–	–	2,550,000
				2,800,000	5,100,000	–	(600,000)	7,300,000
				22,370,000	23,100,000	–	(1,300,000)	44,170,000

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this interim report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the six months ended 30 June 2018.

Employees and Remuneration Policy

As at 30 June 2018, the Group had approximately 446 employees (31 December 2017: 445). 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 the Share Option Scheme pursuant to which employees may be granted options to subscribe for Shares 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.

Other Information

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 Listing Rules.

Model Code for Securities Transactions

The Company has adopted the Model Code 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.

Change of Directors' Information

Each of the Director, except for Mr. Alain Vincent Fontaine, has renewed his/her service agreement with the Company for a further period of three years commencing from 27 May 2018. Save for the amount of housing allowance to which Mr. Choi Hung Nang is entitled as disclosed below and the change of emolument of Mr. Choi Hon Ting, Derek as disclosed in 2016 Annual Report of the Group and Mr. Liu Tom Jing-zhi and Mr. Lao Kam Chi as disclosed in 2017 Annual Report of the Group, the emolument of each of the Director has not changed upon the renewal of their service agreements and other terms and conditions of their service agreements remained the same.

The amount of housing allowance to which Mr. Choi Hung Nang is entitled has been increased from HK$45,000 per month to HK$46,000 per month effective from 22 February 2018 to 21 February 2021.

In April 2018, Ms. Glendy Choi was appointed as a Vice President of the China Construction Machinery Association Road Machine Chapter* (中國工程機械工業協會築養路機械分會) for a term of five years.

Mr. Liu Tom Jing-zhi's term of office 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) has ended in April 2018.

Mr. Chan Lewis has ceased to be an independent non-executive director of Yuk Wing Group Holdings Limited (Hong Kong stock code: 1536) with effect from 20 April 2018.

Mr. Law Wang Chak, Waltery has ceased to be 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) with effect from 25 June 2018. With effect from 17 August 2018, Mr. Law has been an independent non-executive director, chairman of the audit committee, and a member of the nomination committee of AB Builders Group Limited (Hong Kong stock code: 1615), which was listed on 10 September 2018.

* *For identification purpose only*

Report on Review of Interim Financial Information

To the board of directors of D&G Technology Holding Company Limited
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 21 to 44 which comprises the interim condensed consolidated statement of financial position of D&G Technology Holding Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at 30 June 2018 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2018

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

		Unaudited Six months ended 30 June	
	Note	**2018 RMB'000**	2017 RMB'000
Revenue	*7*	**173,043**	238,563
Cost of sales		**(113,787)**	(142,820)
Gross profit		**59,256**	95,743
Other income and other gains, net	*8*	**1,220**	2,513
Distribution costs		**(28,851)**	(34,606)
Administrative expenses		**(70,703)**	(45,837)
Operating (loss)/profit	*9*	**(39,078)**	17,813
Finance income, net		**4,000**	738
(Loss)/profit before income tax		**(35,078)**	18,551
Income tax credit/(expense)	*10*	**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)*	*11(a)*	**(5.61)**	2.28
– diluted *(RMB cents)*	*11(b)*	**(5.61)**	2.27

The notes on pages 26 to 44 form an integral part of this interim consolidated financial information.

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		
Items 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

The notes on pages 26 to 44 form an integral part of this interim consolidated financial information.

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	*12*	**161,768**	161,827
Land use right	*12*	**5,030**	5,095
Investment property	*12*	**12,236**	12,077
Intangible assets	*12*	**3,335**	3,788
Finance lease receivables	*14(a)*	**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	*13*	**316,259**	393,646
Finance lease receivables	*14(a)*	**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
EQUITY			
Share capital	*17*	**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	*14(b)*	**6,099**	5,294
Current liabilities			
Borrowings	*15*	**61,765**	60,150
Contract liabilities		**20,323**	–
Trade and other payables	*16*	**191,692**	216,387
Deposits received from customers	*14(b)*	**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

The notes on pages 26 to 44 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Unaudited							
	Attributable to owners of the Company							
	Share capital RMB'000 *Note 17(a)*	**Share premium** RMB'000 *Note 17(b)*	**Capital reserve** RMB'000	**Statutory reserve** RMB'000	**Exchange reserve** RMB'000	**Share options reserve** RMB'000	**Retained earnings** RMB'000	**Total equity** RMB'000
Balance at 1 January 2017	4,897	429,396	65,290	37,885	32,791	3,921	161,749	735,929
Comprehensive income								
– Profit for the period	–	–	–	–	–	–	14,125	14,125
Other comprehensive loss								
– Currency translation differences	–	–	–	–	(4,250)	–	–	(4,250)
Total comprehensive (loss)/income	–	–	–	–	(4,250)	–	14,125	9,875
Employee share option scheme								
– grant of share options	–	–	–	–	–	1,172	–	1,172
Transfer to statutory reserve	–	–	–	3,217	–	–	(3,217)	–
Dividends	–	(9,779)	–	–	–	–	–	(9,779)
Balance at 30 June 2017	4,897	419,617	65,290	41,102	28,541	5,093	172,657	737,197
Balance at 1 January 2018	**4,897**	**419,617**	**65,290**	**43,963**	**24,348**	**5,873**	**176,828**	**740,816**
Changes in accounting policies *(Note 4)*	**–**	**–**	**–**	**–**	**–**	**–**	**(2,193)**	**(2,193)**
Balance at 1 January 2018, restated	**4,897**	**419,617**	**65,290**	**43,963**	**24,348**	**5,873**	**174,635**	**738,623**
Comprehensive loss								
– Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(34,826)**	**(34,826)**
Other comprehensive loss								
– Currency translation differences	**–**	**–**	**–**	**–**	**(168)**	**–**	**–**	**(168)**
Total comprehensive loss	**–**	**–**	**–**	**–**	**(168)**	**–**	**(34,826)**	**(34,994)**
Employee share option scheme								
– grant of share options	**–**	**–**	**–**	**–**	**–**	**720**	**–**	**720**
Balance at 30 June 2018	**4,897**	**419,617**	**65,290**	**43,963**	**24,180**	**6,593**	**139,809**	**704,349**

The notes on pages 26 to 44 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2018

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from/(used in) operations	**14,969**	(72,279)
Income tax paid	**(4,633)**	(4,733)
Net cash generated from/(used in) operating activities	**10,336**	(77,012)
Cash flows from investing activities		
Payment for acquisition of property, plant and equipment	**(8,688)**	(2,878)
Payment for purchase of intangible assets	**–**	(642)
Interest income	**203**	455
Net cash used in investing activities	**(8,485)**	(3,065)
Cash flows from financing activities		
Repayments of borrowings	**(6,454)**	(29,567)
Proceeds from borrowings	**7,660**	22,050
Dividend paid	**–**	(9,779)
Interest expenses	**(1,199)**	(1,167)
Additions of bank deposits pledged for bank borrowings	**(2,044)**	(4,189)
Net cash used in financing activities	**(2,037)**	(22,652)
Net decrease in cash and cash equivalents	**(186)**	(102,729)
Cash and cash equivalents at beginning of the period	**42,708**	169,261
Effect of foreign exchange rate changes	**(315)**	(2,144)
Cash and cash equivalents at end of the period	**42,207**	64,388

The notes on pages 26 to 44 form an integral part of this interim consolidated financial information.

Notes to the Condensed Consolidated Interim Financial Information

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 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 Standards ("**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 impacts of the adoption (if any) are recognised in retained earnings as at 1 January 2018 and that comparatives are not be 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 RMB'000**	**Effects of the adoption of HKFRS 9 RMB'000**	**Effects of the adoption of HKFRS 15 RMB'000**	**1 January 2018 Restated 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 assumption 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 interim income statement 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, spare parts and modification services as of 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 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

6 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

There have been no changes in the risk management policies since 31 December 2017.

(b) Fair value estimation

Disclosures of the investment property measured at fair value are set out in Note 12 to the condensed consolidated interim financial information.

The carrying amounts of the Company's financial assets and liabilities with a maturity of less than one year, including trade and bills receivable, deposits and other receivables, finance lease receivables, cash and cash equivalents, pledged bank deposits, trade and bills payable, other payables and borrowings approximate their fair values.

7 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 **RMB'000**	2017 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

7 Segment information (Continued)

(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

(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	At 31 December 2017
	RMB'000	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.

8 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.

9 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 *(Note 12)*		
– Assets held for use under operating leases	**7,694**	5,024
– Other assets	**2,983**	2,785
Amortisation *(Note 12)*		
– Land use right	**65**	65
– Intangible assets	**454**	234
Provision for impairment of trade receivables, net	**36,749**	11,525

10 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.

11 (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

11 (Loss)/earnings per share (Continued)

(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

12 Property, plant and equipment, land use right, investment property and intangible assets

	Property, plant and equipment RMB'000	Land use right RMB'000	Investment property RMB'000	Intangible assets RMB'000
Six months ended 30 June 2018				
Net book value				
At 1 January 2018	**161,827**	**5,095**	**12,077**	**3,788**
Additions	**10,091**	**–**	**–**	**–**
Amortisation *(Note 9)*	**–**	**(65)**	**–**	**(454)**
Depreciation *(Note 9)*	**(10,677)**	**–**	**–**	**–**
Exchange difference	**527**	**–**	**159**	**1**
At 30 June 2018	**161,768**	**5,030**	**12,236**	**3,335**
Six months ended 30 June 2017				
Net book value				
At 1 January 2017	134,047	5,226	12,266	3,890
Additions	5,317	–	–	642
Transfer from inventories	12,241	–	–	–
Disposals	(52)	–	–	–
Amortisation *(Note 9)*	–	(65)	–	(234)
Depreciation *(Note 9)*	(7,809)	–	–	–
Exchange difference	(1,161)	–	(365)	(5)
At 30 June 2017	142,583	5,161	11,901	4,293

Note:

The fair value measurement information for the investment property in accordance with HKFRS 13 are given below.

	Fair value measurements		
	Quoted prices in active markets for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
At 30 June 2018			
Recurring fair value measurements			
Investment property	**–**	**–**	**12,236**
At 31 December 2017			
Recurring fair value measurements			
Investment property	–	–	12,077

There were no transfers among Level 1, Level 2 and 3 during the period.

As at 30 June 2018, the directors of the Company considered that the carrying amount of the investment property represented its fair value.

13 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

14 Finance lease receivables and deposits received from 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.

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Non-current		
Finance leases – gross receivables	**24,368**	24,017
Unearned finance income	**(1,289)**	(1,405)
	23,079	22,612
Current		
Finance leases – gross receivables	**34,024**	28,973
Unearned finance income	**(3,519)**	(3,219)
	30,505	25,754
Total	**53,584**	48,366

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Gross receivables from finance leases:		
Not later than 1 year	**34,024**	28,973
Later than 1 year and not later than 5 years	**24,368**	24,017
	58,392	52,990
Unearned future finance income on finance leases	**(4,808)**	(4,624)
Net investment in finance leases	**53,584**	48,366
The net investment in finance leases is analysed as follows:		
Later than 1 year and not later than 5 years	**23,079**	22,612
Not later than 1 year	**30,505**	25,754
	53,584	48,366

(b) Deposits received from customers

Deposits of RMB8,062,000 (31 December 2017: RMB5,856,000) 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.

15 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**

	RMB'000
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

16 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

16 Trade and other payables (Continued)

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

17 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.

18 Interim dividend

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

19 Commitments

Capital commitments

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

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

20 Contingent liabilities

Financial guarantee issued

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 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 30 June 2018, the Group had no exposure to such guarantees (31 December 2017: maximum exposure of RMB975,000).

21 Related party transactions and balances

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

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Finance lease income from a related party:		
Entity jointly controlled by Choi Family and an independent third party	**41**	128
Rental expense to related parties:		
Mr. Choi Hung Nang	**–**	(101)
Entities controlled by Choi Family	**–**	(135)
	–	(236)

21 Related party transactions and balances (Continued)

(b) Year end balances

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Included in finance lease receivables:		
Amount due from a related party		
Entity jointly controlled by Choi Family and an independent third party	**1,239**	1,653
Included in other payables:		
Amounts due to related parties		
Mr. Choi Hung Nang	**–**	547
Entities controlled by Choi Family	**367**	367
	367	914

Except for the financial lease receivable of RMB1,239,000 (31 December 2017: 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.

22 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*