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D&G Technology Holding Company Limited
德基科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1301)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "Board" or the "Directors") of D&G Technology Holding Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 together with the comparative figures for the previous year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	**2018** *RMB'000*	2017 *RMB'000*
Revenue	*5*	**328,155**	447,927
Cost of sales		**(230,031)**	(277,302)
Gross profit		**98,124**	170,625
Other income and other gains, net	*6*	**3,240**	5,532
Distribution costs		**(60,572)**	(66,737)
Administrative expenses		**(75,290)**	(65,524)
Net impairment losses on financial assets		**(24,238)**	(19,153)
Operating (loss)/profit		**(58,736)**	24,743
Finance income, net	*7(a)*	**9,622**	3,614
Share of profit of an associate		**472**	–
(Loss)/profit before income tax	*7*	**(48,642)**	28,357
Income tax credit/(expense)	*8*	**230**	(7,200)
(Loss)/profit attributable to owners of the Company for the year		**(48,412)**	21,157
(Loss)/earnings per share attributable to owners of the Company for the year	*10*		
– basic *(RMB cents)*		**(7.81)**	3.41
– diluted *(RMB cents)*		**(7.81)**	3.40

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(48,412)**	21,157
Other comprehensive income/(loss):		
Item that may be reclassified to profit or loss:		
Currency translation differences	**3,422**	(8,443)
Other comprehensive income/(loss) for the year, net of tax	**3,422**	(8,443)
Total comprehensive (loss)/income attributable to owners of the Company for the year	**(44,990)**	12,714

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**189,497**	161,827
Land use right		**4,965**	5,095
Investment property		**–**	12,077
Intangible assets		**2,911**	3,788
Investment in an associate		**51,972**	–
Finance lease receivables		**–**	22,612
Deposits and prepayments		**160**	24
Deferred income tax assets		**21,646**	20,350
Total non-current assets		**271,151**	225,773
Current assets			
Inventories	*11*	**289,497**	218,450
Trade and bill receivables	*12*	**233,965**	393,646
Finance lease receivables		**–**	25,754
Prepayments, deposits and other receivables		**36,629**	31,205
Pledged bank deposits		**65,015**	90,411
Cash and cash equivalents		**64,407**	42,708
Income tax receivable		**1,552**	–
Total current assets		**691,065**	802,174
Total assets		**962,216**	1,027,947

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	**As at 31 December**	
		2018	2017
	Note	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital	*15*	**4,897**	4,897
Other reserves		**566,476**	559,091
Retained earnings		**125,791**	176,828
Total equity		**697,164**	740,816
LIABILITIES			
Non-current liabilities			
Deposits received from customers	*14*	**–**	5,294
Current liabilities			
Borrowings	*13*	**60,102**	60,150
Contract liabilities	*14*	**29,809**	–
Trade and other payables	*14*	**175,141**	216,387
Deposits received from customers	*14*	**–**	562
Income tax payable		**–**	4,738
Total current liabilities		**265,052**	281,837
Total liabilities		**265,052**	287,131
Total equity and liabilities		**962,216**	1,027,947

NOTES:

1 GENERAL INFORMATION

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

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

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

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

2 BASIS OF PREPARATION

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

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

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New standards, amendments to existing standards and interpretation adopted by the Group

The following new standards, amendments to existing standards and interpretation are mandatory for the Group's financial year beginning on 1 January 2018. The adoption of these amendments has not had any significant impact to the results and financial position of the Group.

Standards	Subject of amendment
HKFRS 1 and HKAS 28 (Amendments)	Annual Improvements 2014-2016 Cycle
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendment)	Clarifications to HKFRS 15
HKAS 40 (Amendment)	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

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.

(b) New standards, amendments to existing standards and interpretation not yet adopted

The following standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

Standards	Subject of amendment	Effective for the accounting period beginning on or after
Annual Improvements Project (Amendment)	Annual Improvements 2015-2017 Cycle	1 January 2019
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the lessee's statement of financial position, as the distinction between operating and finance leases is removed.

HKFRS 16 provides new provisions for the accounting treatment of leases and all non-current leases, including future operating lease commitments, under which an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The accounting for lessors will not significantly change.

The new standard will therefore result in an increase in assets and financial liabilities in the statement of financial position. Operating expenses under otherwise identical circumstances will decrease, and depreciation, amortisation and interest expense will increase.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group's future aggregate minimum lease payments under non-cancellable operating leases is approximately RMB2,681,000, among which less than one year is RMB1,970,000 and more than one year and less than five years is RMB711,000.

It is expected that certain of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-to-use assets and lease liabilities. The Group expects there is no material impact to the consolidated statement of profit or loss.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019.

Other new standards, amendments to existing standards and interpretations

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on any foreseeable future transactions.

4 IMPACT ON THE ADOPTION OF HKFRS 9 AND HKFRS 15

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 statements 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 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 restated.

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

Consolidated statement of financial position (extract)	**31 December 2017 as originally presented**	**Effects of the adoption of HKFRS 9**	**Effects of the adoption of HKFRS 15**	**1 January 2018 Restated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Deferred income tax assets	20,350	444	–	20,794
Current assets				
Contract assets	–	–	380	380
Trade and bill receivables	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

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

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

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

- Trade receivables
- Other receivables
- Finance lease receivables

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

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

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

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

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

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 earnings 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.

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 consolidated statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(iii) Impairment

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

Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) Classification

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

Loans and receivables

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

(ii) Recognition and measurement

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(iii) Impairment of financial assets – assets carried at amortised cost

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

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

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

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

(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.

The impact of the reclassification is as follows:

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

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

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

Sales of goods

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

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

Equipment modification service income

Equipment modification service income is recognised when services are rendered.

Financing components

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

Accounting policies applied until 31 December 2017

The Group has applied HKFRS 15 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

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

(i) Sale of goods

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

(ii) Equipment modification service income

Equipment modification service income is recognised when services are rendered.

5 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company who make strategic decisions.

The executive directors of the Company have determined that the Group only has one operating segment which is the sales of asphalt mixing plants, spare parts, asphalt mixture and bitumen, leasing of asphalt mixing plants and provision of equipment modification services.

Revenue consists of the following:

	2018	2017
	RMB'000	*RMB'000*
Sales of asphalt mixing plants	**260,979**	367,655
Sales of spare parts and provision of equipment modification services	**34,693**	38,001
Operating lease income of asphalt mixing plants	**17,055**	38,123
Finance lease income	**2,575**	4,148
Sales of bitumen, bitumen tanks and equipment	**12,853**	–
	328,155	447,927

(a) Revenue from external customers by country

	2018	2017
	RMB'000	*RMB'000*
People's Republic of China (the "PRC")	**267,041**	333,713
Outside PRC	**61,114**	114,214
	328,155	447,927

(b) Non-current assets

The geographical location of the non-current assets, excluding deferred income tax assets (2017: finance lease receivables and deferred income tax assets), based on the physical location of the assets is analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
PRC	**196,924**	133,843
Outside PRC	**52,581**	48,968
	249,505	182,811

(c) Information about major customers

Revenue from a customer contributing over 10% of the total revenue of the Group is as follows:

	2018	2017
	RMB'000	*RMB'000*
Customer A	**54,500**	N/A*

* The corresponding customer did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2017.

Except for Customer A, there were no other customers individually accounted for more than 10% of the Group's revenue for the year ended 31 December 2018. None of the customers individually accounted for more than 10% of the Group's revenue for the year ended 31 December 2017.

6 OTHER INCOME AND OTHER GAINS, NET

	2018	2017
	RMB'000	*RMB'000*
Other income		
Rental income from investment property	**162**	431
Government grants *(Note)*	**1,659**	2,393
	1,821	2,824
Other gains/(losses)		
Net loss on disposal of property, plant and equipment	**–**	(82)
Fair value gain on revaluation of investment property	**760**	691
Gain on disposal of subsidiaries	**303**	–
Net foreign exchange gain	**588**	1,918
Others	**(232)**	181
	1,419	2,708
	3,240	5,532

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

7 (LOSS)/PROFIT BEFORE INCOME TAX

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

(a) Finance income, net

	2018	2017
	RMB'000	*RMB'000*
Interest on bank borrowings	**(2,497)**	(1,792)
Interest income on bank deposits	**617**	580
Unwinding discount interest on trade receivables not expected to be settled within one year	**11,502**	4,818
Others	**–**	8
	9,622	3,614

(b) Employee benefit expenses (including directors' emoluments)

	2018	2017
	RMB'000	*RMB'000*
Wages, salaries and allowances	**53,022**	49,450
Pension costs – defined contribution plans	**12,433**	11,450
Share-based payment expenses	**3,531**	1,952
	68,986	62,852

(c) Other items

	2018	2017
	RMB'000	*RMB'000*
Depreciation		
– Assets held for use under operating leases	**9,552**	7,534
– Other assets	**9,816**	8,529
Amortisation		
– Land use right	**130**	131
– Intangible assets	**885**	733
Provision for impairment of trade receivables, net	**27,931**	19,153
Reversal of provision for impairment of other receivables	**(3,693)**	–
Provision for impairment of inventories	**3,992**	–
Write-off of property, plant and equipment	**1,102**	–
Operating lease charges	**2,822**	3,156
Research and development costs	**11,884**	16,133
Auditor's remunerations		
– Audit services	**1,686**	1,734
– Non-audit services	**74**	74
Cost of inventories	**188,723**	251,129
Freight and transportation expenses	**13,915**	13,317
Other expenses	**52,326**	44,241

8 INCOME TAX (CREDIT)/EXPENSE

	2018	2017
	RMB'000	*RMB'000*
Current income tax:		
– PRC corporate income tax	**895**	11,032
– Hong Kong profits tax	**–**	6
– (Over)/under provision in prior years	**(273)**	188
	622	11,226
Deferred income tax	**(852)**	(4,026)
	(230)	7,200

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

No provision for Hong Kong profits tax for the subsidiaries incorporated or operating in Hong Kong was made as the subsidiaries did not have assessable profits subject to Hong Kong profits tax (2017: Nil).

No provision for Singapore, India and Pakistan income tax was made for the subsidiaries incorporated in these countries as the subsidiaries did not have assessable profits subject to Singapore, India and Pakistan income tax (2017: Nil).

The Group's PRC subsidiaries are subject to the PRC corporate income tax rate of 25% (2017: 25%).

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

(iii) Under the PRC corporate income tax law and relevant regulations, a 75% (2017: 50%) additional tax deduction is allowed for qualified research and development expenses.

9 DIVIDENDS

The Directors do not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

A final dividend in respect of the year ended 31 December 2016 of HK1.8 cents (equivalent to approximately RMB1.6 cents) per ordinary share, amounting to a total dividend of RMB9,779,000, was paid during the year ended 31 December 2017. No dividend was paid during the year ended 31 December 2018.

10 (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	2018	2017
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(48,412)**	21,157
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)*	**(7.81)**	3.41

(b) Diluted

Diluted loss per share for the year ended 31 December 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 year attributable to owners of the Company for the year ended 31 December 2017. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during that year, as used in the basic earnings 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 year ended 31 December 2017.

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

11 INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**119,808**	105,699
Work in progress	**167,791**	102,010
Finished goods	**1,898**	10,741
	289,497	218,450

The cost of inventories recognised as expense and included in "cost of sales" amounted to approximately RMB188,723,000 (2017: RMB251,129,000). The inventories as at 31 December 2018 and 2017 were stated at the lower of cost and net realisable value. The provision for inventories of RMB3,992,000 (2017: Nil) has been included in "cost of sales" in the consolidated statement of profit or loss for the year ended 31 December 2018.

12 TRADE AND BILL RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables from third parties *(Notes (a) and (b))*	**359,868**	491,980
Loss allowance	**(121,097)**	(90,206)
Discounting impact	**(12,104)**	(9,928)
	226,667	391,846
Bill receivables	**7,298**	1,800
Total trade and bill receivables	**233,965**	393,646

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

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

	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**175,332**	250,988
1 to 2 years	**79,782**	100,495
2 to 3 years	**52,233**	107,328
Over 3 years	**52,521**	33,169
	359,868	491,980

13 BORROWINGS

	2018	2017
	RMB'000	*RMB'000*
Secured bank loans	**60,102**	60,150

14 DEPOSITS RECEIVED FROM CUSTOMERS, TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2018	2017
	RMB'000	*RMB'000*
Non-current:		
Deposits received from customers	**–**	5,294
Current:		
Trade payables	**59,377**	49,933
Bill payables	**89,782**	116,736
	149,159	166,669
Amounts due to related parties	**338**	914
Contract liabilities	**29,809**	–
Other payables and accruals	**25,644**	48,804
Deposits received from customers	**–**	562
	55,791	50,280
	204,950	222,243

The ageing analysis of trade and bill payables as at the end of the year based on invoice date is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**137,640**	91,679
After 3 months but within 6 months	**7,578**	48,694
After 6 months but within 1 year	**3,255**	25,294
Over 1 year	**686**	1,002
	149,159	166,669

15 SHARE CAPITAL

Authorised:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares
		HK$
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	2,000,000,000	20,000,000

Issued and fully paid:

	Number of shares		
	('000)	*HK$'000*	*RMB'000*
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	620,238	6,203	4,897

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2018, the Group continued to be a leading market player in the road construction and maintenance machinery industry, focusing on medium to large-scale asphalt mixing plants. The Group provided one-stop customised solutions to customers in the People's Republic of China ("PRC", "China" or "Mainland China") and overseas markets, specialising in the research and development, design, manufacturing and sale of conventional and recycling asphalt mixing plants.

Business Review

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

During the year, the Group continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were thirty-two (2017: fifty-two) sales contracts of asphalt mixing plants completed by the Group during the year 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), Beijing-Shanghai Expressway (京滬高速), etc. The China's infrastructure investment grew 3.8% in 2018 compared to 19% in 2017. Hence the number of sales contracts completed during the year 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 year, 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 29.0% during the year, whereas, the sales of asphalt mixing plants accounted for approximately 79.5% (2017: 82.1%) 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 year. Although the collection of outstanding trade receivables was slightly improved in the second half of the year, the Group still made an additional net provision for impairment loss of trade receivables of RMB27.9 million for the full year in 2018.

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

Disposal 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's investment in Shanghai Topp will not only strengthen the capital position of Shanghai Topp 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.

The first tranche of the Subscription has taken place upon the new business license of Shanghai Topp 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. The second tranche of the Subscription has also taken place before 31 December 2018. The gain on the disposal of Shanghai Topp amounting to RMB0.3 million was recorded as "other income and other gains, net" in the consolidated financial statements.

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 year, 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 year, 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 31 December 2018, twenty-six patents of combustion technology were registered and four patents were pending registration.

Research and Development

To maintain its position as a leading market player in the road construction and maintenance machinery industry focusing on medium to large-scale asphalt mixing plants, the Group continued to maintain its strong research and development capabilities. As at 31 December 2018, the Group had ninety-one registered patents in the PRC (of which four were invention patents) and twenty-six software copyrights. In addition, sixteen patents were pending registration as at 31 December 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 year, the Group participated in various promotional events and technical seminars such as the China Asphalt Industry Summit, Annual Meeting of the China Highway & Transportation Society Conservation and Management Branch, Intermat Asean 2018 held in Thailand and ITIFAsia 2018 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. 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. In December 2018, the Group was awarded the "Hong Kong Green Awards 2018 – Corporate Green Governance Award" which was organized by the Green Council. The Group has won this award for three consecutive years. It is a recognition of the Group's commitment to green governance.

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 the 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 November 2018, Ms. Glendy Choi was invited to be one of the speakers at the Tricor Seminar which is about "Corporate Governance & Regulatory Updates". The seminar attracted more than a thousand attendees and received positive and keen responses.

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 the industrial sector, the demand for our recycling and environmentally-friendly products continues to grow. There will be increasing demand for the recycling asphalt plants as well as the modification services of adding recycling and environmental protection functions to existing plants. The Group will further promote green technology innovation and continue to improve its competitive advantage so as to reinforce its leading position in the market.

Investment in infrastructure overseas is a way of building up strategic partnerships with countries along the "One Belt One Road" region for the PRC government. The Group continues to participate in numerous "One Belt One Road" construction projects led by Chinese state-owned enterprises, including major expressway construction project of the "China-Pakistan Economic Corridor". The Group is honored to participate in the major infrastructure construction projects along the regions and is prepared for more projects in the future.

Since the technologies of the Group's asphalt mixing plants are widely adopted in countries except for 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 year. 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 year, 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 export sales during the year. Looking ahead to 2019, 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 year ended 31 December 2018, the Group recorded a total revenue of RMB328,155,000 (2017: RMB447,927,000), representing a decrease of approximately 26.7% as compared to last year. The gross profit of the Group decreased from RMB170,625,000 for the year ended 31 December 2017 to RMB98,124,000 for the year ended 31 December 2018, representing a decrease of approximately 42.5%. The overall gross profit margin decreased by 8.2 percentage points from 38.1% to 29.9%. The Group recorded a net loss attributable to owners of the Company of RMB48,412,000 compared with a net profit of RMB21,157,000 last year.

	2018 ***RMB'000***	2017 *RMB'000*	Change
Sales of asphalt mixing plants	**260,979**	367,655	-29.0%
Sales of spare parts and provision of equipment modification services	**34,693**	38,001	-8.7%
Operating lease income of asphalt mixing plants	**17,055**	38,123	-55.3%
Sales of bitumen, bitumen tanks and equipment	**12,853**	–	N/A
Finance lease income	**2,575**	4,148	-37.9%
	328,155	447,927	-26.7%

Sales of Asphalt Mixing Plants

	2018	2017	Change
	RMB'000	*RMB'000*	
Revenue	**260,979**	367,655	-29.0%
Gross profit	**83,118**	134,514	-38.2%
Gross profit margin	**31.8%**	36.6%	-4.8pp
Number of contracts	**32**	52	-20
Average contract value	**8,156**	7,070	+15.4%

The decrease in the revenue from the sales of asphalt mixing plants was mainly due to 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 slowdown of overseas road construction activities also led to a significant 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 4.8 percentage points to 31.8% during the year was mainly due to the decrease in the number of Recycling Plants sold during the year. 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

	2018	2017	Change
	RMB'000	*RMB'000*	
Recycling Plants			
Revenue	**180,735**	203,152	-11.0%
Gross profit	**58,040**	77,295	-24.9%
Gross profit margin	**32.1%**	38.0%	-5.9pp
Number of contracts	**19**	28	-9
Average contract value	**9,512**	7,255	+31.1%
Conventional Plants			
Revenue	**80,244**	164,503	-51.2%
Gross profit	**25,078**	57,219	-56.2%
Gross profit margin	**31.3%**	34.8%	-3.5pp
Number of contracts	**13**	24	-11
Average contract value	**6,173**	6,854	-9.9%

The revenue from the sales of Recycling Plants decreased by 11.0% 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 year. The gross profit margin decreased by 5.9 percentage points to 32.1% during the year 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 last year. The increase in the average contract value was mainly due to higher degree of customisation of the Recycling Plants sold during the year.

The revenue from the sales of Conventional Plants decreased by 51.2% primarily because of the decrease in both the number of contracts and the average contract value during the year. The decrease in the average contract value was mainly because of relatively more asphalt mixing plants with lower capacity sold during the year. Gross profit margin decreased by 3.5 percentage points during the year mainly due to an increase in raw materials cost.

By Geographical Location

	2018	2017	Change
	RMB'000	*RMB'000*	
PRC			
Revenue	**225,552**	257,927	-12.6%
Gross profit	**74,081**	102,581	-27.8%
Gross profit margin	**32.8%**	39.8%	-7.0pp
Number of contracts	**26**	34	-8
Average contract value	**8,675**	7,586	+14.4%
Overseas			
Revenue	**35,427**	109,728	-67.7%
Gross profit	**9,037**	31,933	-71.7%
Gross profit margin	**25.5%**	29.1%	-3.6pp
Number of contracts	**6**	18	-12
Average contract value	**5,905**	6,096	-3.1%

The 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 percentage points to 32.8% during the year 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 year 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 a higher degree of customisation.

The revenue from the overseas sales decreased mainly because of the decrease in the number of contracts completed. The significant decrease in the number of contracts was mainly due to the slowdown in the infrastructure projects along the One Belt One Road countries. The decrease in average contract value was mainly due to the asphalt mixing plants with lower capacity and contract value sold overseas during the year. The gross profit margin decreased by 3.6 percentage points to 25.5% was mainly due to plants with discounted prices sold to Bangladesh and Malaysia during the year.

Sales of Spare Parts and Components and Provision of Equipment Modification Services

	2018	2017	Change
	RMB'000	*RMB'000*	
Revenue	**34,693**	38,001	-8.7%
Gross profit	**13,091**	17,306	-24.4%
Gross profit margin	**37.7%**	45.5%	-7.8pp

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.

The revenue from sales of spare parts and components and provision of equipment modification services amounted to approximately RMB23,310,000 and RMB11,383,000 respectively (2017: RMB21,100,000 and RMB16,901,000 respectively). The increase in sales of spare parts and components was mainly due to increased demand from customers for repair and maintenance of asphalt mixing plants. The decrease in revenue from provision of equipment modification services was mainly due to the decrease in the number of customers demanded for modification of Conventional Plants. The gross profit margin decreased by 7.8 percentage points during the year because more competitive pricing was given to the customers in order to attract new 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.

The revenue from operating lease of asphalt mixing plants decreased by 55.3% primarily because the total volume of productions decreased as compared with last year. 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 year, the Group recorded a gross loss for its operating lease business of approximately RMB3,771,000 (2017: Gross profit of RMB14,657,000). 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 year. The number of plants held for operating lease as at 31 December 2018 was sixteen as compared with thirteen as at 31 December 2017.

Sales of Bitumen, Bitumen Tanks and Equipment

During the year, the Group completed two contracts, with a total contract value of approximately RMB7,436,000, of bitumen tanks and equipment supply to customers in Pakistan. The Group has also sourced and supplied bitumen to customers in Pakistan with a contract value of approximately RMB5,417,000 during the year. The Group considered the supply of bitumen, bitumen tanks and equipment as auxiliary services to its customers developing along the "One Belt One Road" countries and would grasp the potential business opportunities to develop asphalt mixture related business.

Other Income and Other Gains, Net

During the year, other income and other gains, net mainly represented net exchange gains arising from trading transactions and translation of pledged bank deposits, gain on disposal of subsidiaries and government grants. The decrease was mainly due to the decrease in government grants and net foreign exchange gain.

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. The decrease in distribution costs was mainly due to the decrease in sales of asphalt mixing plants through distributors as a result of the decrease in sales of asphalt mixing plants during the year which was partially offset by the increase in staff costs.

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses, and legal and professional fees. During the year, the administrative expenses increased by approximately RMB9.8 million was mainly due to (1) the increase in staff costs of administrative staff; (2) the increase in depreciation as a result of increase in number of asphalt mixing plants deployed to operating lease business; and (3) the increase in legal and professional fees in relation to the disposal of Shanghai Topp, which was partially offset by the decrease in research and development cost.

Net Impairment Losses on Financial Assets

The amount represented the impairment losses on trade receivables of RMB27.9 million (2017: RMB19.1 million) and reversal of provision of impairment of other receivable of RMB3.7 million (2017: Nil). The increase in net provision for impairment loss was mainly due to the collection of outstanding trade receivables from customers remained slow during the year as a result of the delay in public-private partnership projects in China.

Share of Profit of an Associate

The amount represented the share of the profit of Shanghai Topp after the completion of the disposal of equity interests in Shanghai Topp on 25 July 2018.

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 net finance income during the year was mainly due to the increase in interest income on unwinding discounted trade receivables.

Income Tax Credit

Income tax credit for the year ended 31 December 2018 resulted from the net effect of the decrease in profit generated by a PRC subsidiary of the Company which is a "high and new technology enterprise" entitled to a preferential tax rate of 15%, reversal of over provision in prior years and the increase in deferred tax assets recognised for the provision for impairment of trade receivables for the year.

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company amounted to approximately RMB48.4 million for the year ended 31 December 2018 compared with the profit attributable to owners of the Company of approximately RMB21.2 million for the year ended 31 December 2017. The loss for the year was mainly due to the decrease in revenue and gross profit, increase in administrative expenses and net provision for impairment loss of trade receivables as discussed above.

Working Capital Management

Net current assets of the Group amounted to RMB426,013,000 (31 December 2017: RMB520,337,000) with a current ratio of 2.6 times (31 December 2017: 2.8 times) as at 31 December 2018.

Inventories increased by RMB71,047,000 from RMB218,450,000 as at 31 December 2017 to RMB289,497,000 as at 31 December 2018. Inventory turnover days was 403 days for the year ended 31 December 2018, representing an increase of 148 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 because of the postponement of the public-private partnership projects or pending of environmental permit approvals. The increase in inventory turnover days was mainly because of the increase in raw materials and work in progress.

Trade and bill receivables decreased by RMB159,681,000 from RMB393,646,000 as at 31 December 2017 to RMB233,965,000 as at 31 December 2018. Trade and bill receivables turnover days was 349 days for the year ended 31 December 2018, representing an increase of 33 days as compared to 316 days for the year ended 31 December 2017. The decrease in trade and bill receivables was primarily due to the net provision for impairment loss of RMB27.9 million provided during the year. The increase in trade and bill receivables turnover days during the year was primarily due to (1) the delay in settlement from some of the PRC customers; and (2) the decrease in overseas sales of asphalt mixing plants of which majority of contract sum were settled prior to shipment. The Group will continue to cautiously monitor the trade receivables collection process so as to improve the collection cycle.

Trade and bill payables decreased by RMB17,510,000 from RMB166,669,000 as at 31 December 2017 to RMB149,159,000 as at 31 December 2018. Trade and bill payables turnover days was 247 days for the year ended 31 December 2018, representing an increase of 57 days as compared to 190 days for the year ended 31 December 2017. The decrease in trade and bill payables was due to the decrease in purchase during the year. The increase in trade and bill payables 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 31 December 2018, the Group had cash and cash equivalents of RMB64,407,000 (31 December 2017: RMB42,708,000) and pledged bank deposits of RMB65,015,000 (31 December 2017: RMB90,411,000). In addition, the Group had interest-bearing bank borrowings of RMB60,102,000 (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 8.6% (31 December 2017: 8.1%). Subsequent to the date of consolidated statement of financial position, the Group has obtained a green loan financing from one of its major bankers amounting to HK$100 million (equivalent to approximately RMB87.8 million) to finance or refinance the working capital of the Group's core manufacturing business of Recycling Plants. The Group believes that the green loan financing shall provide a solid financial resource to the Group to cope with the increasing working capital demand resulting from the expected increase in sales orders in coming years.

During the year ended 31 December 2018, the Group recorded a net cash generated from operating activities of RMB63,178,000 (2017: net cash used in operating activities RMB68,552,000). Net cash used in investing activities amounted to RMB35,393,000 (2017: RMB46,697,000) for the year ended 31 December 2018. Net cash used in financing activities for the year ended 31 December 2018 amounted to RMB9,034,000 (2017: RMB7,280,000).

Capital Commitments and Contingent Liabilities

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

	At 31 December 2018	At 31 December 2017
	RMB'000	*RMB'000*
Contracted for	**3,030**	9,116
Authorised but not contracted for	**–**	8,159

Certain customers of Langfang D&G financed their purchases of the Group's plants through finance leases provided by third-party leasing companies and Shanghai Topp. Under the leasing arrangements, Langfang D&G provided guarantee to the third-party leasing companies and Shanghai Topp that in the event of customer default, the third-party leasing companies and Shanghai Topp have the rights to demand Langfang D&G to repay the outstanding lease payments due from the customers for the repossession of the leased plants. As at 31 December 2018, the Group's maximum exposure to such guarantees was approximately RMB40,219,000 (2017: RMB975,000). Increase in the Group's maximum exposure to such guarantees was mainly because Shanghai Topp ceased to be a subsidiary of the Group since 25 July 2018.

Pledge of Assets

As at 31 December 2018, property, plant and equipment of RMB46,524,000 (31 December 2017: RMB45,245,000), land use right of RMB4,965,000 (31 December 2017: RMB5,095,000) and bank deposits of RMB65,015,000 (31 December 2017: RMB90,411,000) were pledged for borrowings and bill payables of the Group.

Foreign Exchange Risk

The reporting currency of the Group was Renminbi. The Group was exposed to foreign exchange risk through sales and purchases which were denominated in a foreign currency including US dollars and Euros. The appreciation or depreciation of Renminbi against these foreign currencies would increase or decrease the price of the Group's products which were sold to overseas markets 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 year ended 31 December 2018.

Significant Investments and Material Acquisitions or Disposals

Save as disclosed above under the section headed "Disposal of Equity Interests in a Wholly-owned Subsidiary" in the Business Review section, during the year ended 31 December 2018, the Group did not have other 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 31 December 2018, the unutilised proceeds were deposited in licensed banks in Hong Kong and China.

	Original allocation	Revised allocation as at 1 March 2017	Utilised amount as at 31 December 2018	Unutilised amount as at 31 December 2018
	RMB million	*RMB million*	*RMB million*	*RMB million*
Expansion of the manufacturing facilities				
Acquisition of land	39.6	–	–	–
Development and construction of the manufacturing facilities	65.9	31.5	31.5	–
Purchase of equipment for the manufacturing facilities	26.4	7.2	7.2	–
Research and development	52.8	52.8	51.3	1.5
Development of new business	26.4	72.0	72.0	–
Expansion of the sales and distribution networks and promotional activities	26.4	26.4	26.4	–
Working capital and general corporate purposes	26.4	74.0	74.0	–
	263.9	263.9	262.4	1.5

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had approximately 453 (2017: 445) employees. The total staff costs for the year ended 31 December 2018 amounted to approximately RMB68,986,000 (2017: RMB62,852,000).

The remuneration policy of the Group was based on performance of employees, market conditions, business demands and expansion plans. The Group offered different remuneration packages to the employees based on their positions, salaries, discretionary bonuses, contributions to pension schemes, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. The Group also provided training to employees on a regular basis. In accordance with the relevant requirements, the Group made contributions to pension and provided other employees benefits.

The Group has adopted a share option scheme pursuant to which employees and Directors may be granted options to subscribe for shares of the Company as incentives or rewards for their service rendered to the Group. During the year ended 31 December 2018, the Company granted 5,100,000 share options to its employees (2017: Nil) and 18,000,000 share options to the Directors (2017: Nil).

DIVIDENDS

The Directors do not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

ANNUAL GENERAL MEETING

The 2019 annual general meeting ("2019 AGM") will be held on Wednesday, 29 May 2019, and the notice of the 2019 AGM will be published and despatched in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Friday, 24 May 2019 to Wednesday, 29 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2019 AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 23 May 2019.

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the year ended 31 December 2018, the Company, in the opinion of the Directors, complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

SUSTAINABILITY

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

The sustainability report (the "Sustainability Report") of the Group demonstrated the integration of environmental, social and governance considerations in its business approach. The innovative technology and sustainable products carry a strong message: with every segment of road paved with asphalt mixtures from our asphalt mixing plants, we leave an imprint of sustainability. The Sustainability Report will be published on the website of Hong Kong Exchanges and Clearing Limited and the website of the Company in due course, which provides the sustainability performance of the Group for the year ended 31 December 2018, and sets out the sights and plans of the Group for the future.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Specific enquiry was made to all the Directors and all the Directors confirmed that they complied with the Model Code throughout the year ended 31 December 2018.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has an audit committee (the "Audit Committee") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control systems. The Audit Committee comprises four members, namely Mr. Law Wang Chak, Waltery (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson. All of them are independent non-executive Directors. The final results of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the reporting year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The 2018 annual report will also be published on the website of Hong Kong Exchanges and Clearing Limited and the website of the Company and will be despatched to the shareholders of the Company in due course.

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

Hong Kong, 25 March 2019

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

* *For identification purpose only*