德基科技
D&G TECHNOLOGY

D&G TECHNOLOGY HOLDING COMPANY LIMITED

<INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY>
STOCK CODE 1301

2018 ANNUAL REPORT

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

ENVIRONMENTAL MONITORING AND REPORTING Corporate Green Governance Award Hong Kong Green Awards 2018

商界展關懷 caringcompany 2016-19 Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

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3 years+ 香港綠色企業大獎 2018 Hong Kong Green Awards

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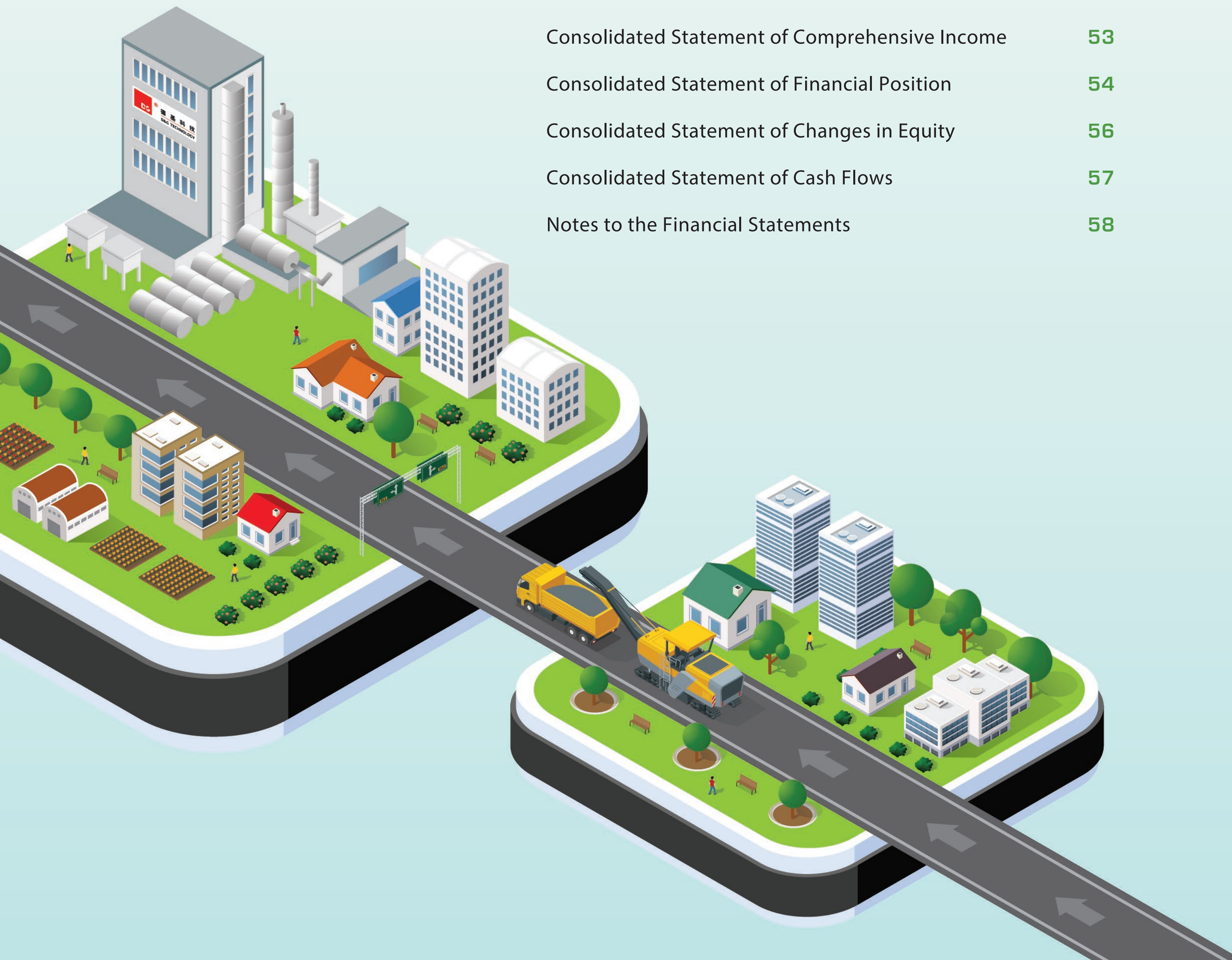

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-Executive Directors

Mr. Chan Lewis
Mr. Alain Vincent Fontaine

Independent Non-Executive Directors

Mr. Law Wang Chak, Waltery
Mr. Li Zongjin
Mr. Lee Wai Yat, Paco
Mr. Fok Wai Shun, Wilson

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Risk Management Committee

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

Company Secretary

Mr. Tsang Chin Pang

Authorised Representatives

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

Registered Office

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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
The Hongkong and Shanghai Banking Corporation Limited

Company Website

www.dgtechnology.com

FIVE YEAR FINANCIAL SUMMARY

	2018 **RMB'000**	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Results					
Revenue	**328,155**	447,927	321,449	390,027	444,313
Gross Profit	**98,124**	170,625	126,934	165,408	184,183
(Loss)/profit for the year attributable to:					
Owners of the Company	**(48,412)**	21,157	(28,499)	30,788	74,326
Non-controlling interests	**–**	–	–	–	8,832
	(48,412)	21,157	(28,499)	30,788	83,158
Assets, Liabilities and Equity					
Total assets	**962,216**	1,027,947	1,017,223	974,505	590,600
Total liabilities	**(265,052)**	(287,131)	(281,294)	(212,239)	(323,520)
Total Equity	**697,164**	740,816	735,929	762,266	267,080

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the annual report of D&G Technology Holding Company Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") for the year ended 31 December 2018 (the "year").

2018 has been a challenging year. The volatile economy and heightened political tension, especially the ongoing US-China trade war, have casted a long shadow over the global economy. Although the Group does not export its products to the United States of America (the "US"), the side effects of US-China trade war has created negative impacts to the overall business environment, and inevitably affecting the Group's performance.

During the year, the delay in public-private partnership projects and the delay in the installation and commissioning of asphalt mixing plants due to the strengthening environmental protection requirements in China were still the major factors to the Group's underperformance. Together with the slower infrastructure development along some "One Belt One Road" ("OBOR") countries and weaker local currencies against US dollar in Russia, India and Pakistan, the Group's overall performance has been affected adversely.

Despite the economic slowdown and uncertainties over the trade war, the Chinese government's programme of infrastructure investment was starting to bear fruit in the beginning of 2019. As announced in the annual session of the National People's Congress, China will expand its infrastructure investment in 2019 with goals set to bolster areas of weakness in infrastructure construction and accelerate the implementation of key infrastructure projects. According to the report, RMB800 billion will be used in railway construction and RMB1.8 trillion will be used in waterway and road construction projects, including the Sichuan-Tibet Railway. Around RMB577.6 billion will be included in the central government budget for related infrastructure investment, which represents an increase of RMB40 billion as compared with last year. Additionally, the central government has also increased its special local government bonds to RMB2.15 trillion this year. The new bonds aim to provide funding to local authorities for key infrastructure investment in order to forestall and defuse local governments' debt risks. With the strong supports from the government, we believe that the outlook of infrastructure sector in China would be promising in this year.

Furthermore, the OBOR initiative, being one of the largest global infrastructure and investment projects in history, has also allowed the Group to seize business opportunities domestically and internationally. In order to expand our footprints along the OBOR markets, the Group has set up subsidiaries in Singapore, India and Pakistan since its listing in May 2015. Though the uncertainty over local political risks and potential cultural conflicts might be a hurdle for the Group's geographical expansion, the Group's recycling equipment with environmentally-friendly and energy saving features serves very much the current market demand. With our extensive experience and proven track records in the industry throughout the years, our asphalt mixing products and services have been gradually well-recognized by both domestics and overseas markets.

With continuous innovation and pursuit of excellence, we are recognized as one of the "China Top 30 Construction Machinery Manufacturers" in 2018, ranked within the "China Top 30 Construction Machinery Manufacturers" for eighth consecutive years since 2011, and also ranked as one of the "World Top 100 (Plus 50) Construction Machinery Manufacturers" and the top among all those professional asphalt mixing plant manufacturers. We have also witnessed fruits of our efforts by winning various scalable OBOR projects, including the major expressway construction project of the "China-Pakistan Economic Corridor". The Group is honored to participate in some of the major infrastructure projects from the PRC government, and we are well equipped to secure more contacts in the future.

While the Group is steadily gaining momentum for its development in OBOR markets, we continue to see the potentials and considerable needs from upstream and downstream asphalt related business. Therefore, the Group have been working closely with potential strategic partners to develop road construction and maintenance materials and asphalt mixture businesses with an aim to broaden our income sources and raise profits in a long run.

On the other hand, the Group attaches great importance to the enhancement of research and development ("R&D"). Our cutting-edge technology allows us to stay competitive and being a leading market player throughout the years. The Group will continue to put efforts to enhance its R&D capabilities, such as the burner combustion components (one of the components of asphalt mixing plants), to diversify our business portfolio through co-operation with strategic partners who possess local expertise in China.

To support our business expansion, we successfully got approved for a green loan from Hong Kong and Shanghai Banking Corporation in February 2019, and obtained the green finance certificate issued by the Hong Kong Quality Assurance Agency. By tapping into green financing, it will not only facilitate the development of our environmentally-friendly and energy saving asphalt mixing plants, but it has also demonstrated our green credibility.

The Group is always dedicated to raising environmental protection awareness in the society. We are the member of Green Council, working towards as a role model for sustainable procurement with reference to ISO20400 with a vision to help Hong Kong turn into a world-class green city; and in 2018. the Group's perseverance and efforts in green governance have been awarded with the "Hong Kong Green Awards 2018" in the division of "Corporate Green Governance Award – Environmental Monitoring and Reporting".

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

Choi Hung Nang
Chairman

25 March 2019

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 OBOR 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 OBOR 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 OBOR 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 OBOR 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 OBOR 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 OBOR 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 OBOR 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.

* For identification purpose only

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 organised 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 OBOR region for the PRC government. The Group continues to participate in numerous OBOR construction projects led by Chinese state-owned enterprises, including major expressway construction project of the "ChinaPakistan 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 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 OBOR 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 utilise 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 **RMB'000**	2017 RMB'000	Change
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 RMB'000	2017 RMB'000	Change
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 RMB'000	2017 RMB'000	Change
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 OBOR 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 RMB'000	2017 RMB'000	Change
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 OBOR 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 RMB'000	At 31 December 2017 RMB'000
Contracted for	**3,030**	9,116
Authorised but not contracted for	**–**	8,159

Certain customers of Langfang D&G Machinery Technology Company Limited ("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.

Environmental Policy

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

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

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

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2018 and up to the date of this Annual Report, to the best knowledge of the Company, the Group has complied with all the relevant laws and regulations in Mainland China and Hong Kong which have a significant impact on the business and operations of the Group, and there is no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Relationships with Stakeholders

The Group aims to align its business strategies with its stakeholders' expectations and concerns. To better understand those expectations and concerns, the Group has to communicate and involve its stakeholders in its decision-making process. During the year ended 31 December 2018, the Group has engaged with its stakeholders on an ongoing basis via various engagement methods, such as online media and Wechat.

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

Principal Risks and Uncertainties

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

Industry risk in the PRC

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

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

Industry risk in the overseas market

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

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

Financial credit risk

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

Environmental compliance risk

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

Quality control risk

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

Employees and Remuneration Policy

As at 31 December 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).

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 RMB' million	**Revised allocation as at 1 March 2017** RMB' million	**Utilised amount as at 31 December 2018** RMB' million	**Unutilised amount as at 31 December 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	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

Executive Directors

Mr. Choi Hung Nang, aged 80, is our co-founder, chairman and executive Director. He was appointed as an executive Director on 11 September 2014. He is primarily responsible for supervising the operations and planning the business and marketing strategies of our Group. Mr. Choi established our Group in February 1999 and has been the chairman and director of Langfang D&G since June 2011. He is also a director of certain entities of the Group.

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

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

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

Ms. Choi Kwan Li, Glendy, aged 48, is our executive Director and chief executive officer. She was appointed as an executive Director on 11 September 2014. She is primarily responsible for overseeing the corporate management of our Group and the overall management and implementation of business and marketing strategies and plans. Ms. Glendy Choi has over 20 years of experience in the trading and manufacturing of specialised engineering equipment. She was appointed as a director and general manager of Langfang D&G in June 2009. She was also appointed as the legal representative of Langfang D&G in June 2011. She is also a director of certain entities of the Group.

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

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

Ms. Glendy Choi was titled as "100 Most Influential Persons of China Construction Machinery Industry" in 2017 and 2018.

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.

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

* *For identification purpose only*

Mr. Choi Hon Ting, Derek (formerly known as Choi Kwan Wai, Derek), aged 50, is our executive Director. He was appointed as an executive Director on 11 September 2014. Mr. Derek Choi has over 27 years of experience in the trading of specialised engineering equipment. He is primarily responsible for overseeing the strategic business development of our Group. Mr. Derek Choi has been appointed as a director of Langfang D&G since June 2011. He is also a director of certain entities of the Group.

Mr. Derek Choi was awarded a bachelor's degree in agricultural engineering from Purdue University in May 1991. Mr. Derek Choi has been appointed as one of the guarantors in the International Society of Trenchless Technologies since 2016. Mr. Derek Choi has been admitted as a fellow member of the Hong Kong Institute of Directors since February 2005. In April 2016, he was admitted as a member of Hong Kong Professionals and Senior Executives Association (HKPASEA). Mr. Derek Choi has been appointed as an independent non-executive director of HM International Holdings Limited (Hong Kong stock code: 8416) since 15 December 2016. He was an independent non-executive director of IPE Group Limited 國際精密集團有限公司* (Hong Kong stock code: 929) from 23 June 2004 to 2 June 2017.

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

Mr. Liu Tom Jing-zhi, aged 49, is our executive Director and chief operating officer. He was appointed as an executive Director on 11 September 2014. He is primarily responsible for overseeing daily operations of manufacturing facilities and the implementation of business strategies and plans of our Group. Mr. Liu has over 15 years of experience in corporate management and business operations. He joined our Group in August 2006 as the director and deputy general manager of Langfang D&G. He is also a director of certain entities of the Group.

In September 1999, Mr. Liu was awarded a graduate diploma in business administration from the University of Technology Sydney. Mr. Liu was recognised as a Person of Innovation* (創新人物) by the Equipment Management Institute of Hebei Province Innovation Development Committee (河北省工業設備管理創新發展峰會組委會) in June 2012. Since April 2013, Mr. Liu has been appointed as a member of the Sixth Committee of Chinese People's Political Consultative Conference, Langfang city (中國人民政治協商會議廊坊市第六屆委員會) for a term of 5 years and has ended in April 2018.

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

Mr. Lao Kam Chi, aged 57, is our executive Director and general manager (sales and marketing). He is primarily responsible for managing and implementing sales and marketing strategies. Mr. Lao has over 31 years of experience in sales and marketing. Mr. Lao joined our Group in October 2002 as the general manager of the sales and marketing team in Beijing D&G Machinery Company Limited* (北京德基機械有限公司). He has been a director of Langfang D&G since June 2011, and the general manager of our sales and marketing centre since August 2009.

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

* *For identification purpose only*

Non-executive Directors

Mr. Chan Lewis (formerly known as Chan Yeung), aged 48, was appointed as a non-executive Director on 15 December 2014. Mr. Chan is the managing partner of Maunakai Capital Partners (Hong Kong) Limited. He is also an executive director of DT Capital Limited (formerly known as Incutech Investments Limited) (Hong Kong stock code: 356). Mr. Chan was appointed as an independent non-executive director of Yuk Wing Group Holdings Limited (Hong Kong stock code: 1536) on 15 December 2016 and ceased with effect from 20 April 2018. He has over 19 years of experience in asset management and investment research. Mr. Chan received his bachelor's degree in economics from the University of Chicago in June 1994 and his master of arts from Columbia University in May 1996. Mr. Chan further obtained his Ph.D. from Harvard University in June 2000.

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

Mr. Alain Vincent Fontaine, aged 64, was appointed as a non-executive Director on 15 August 2016. Mr. Fontaine is responsible for providing advice on corporate governance and internal control matters of the Group. Mr. Fontaine obtained a bachelor's degree in electrical engineering from the University of Sherbrooke in Canada in June 1979. He has been a member of the Order of Engineers of Québec since January 1980.

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

Independent Non-executive Directors

Mr. Law Wang Chak, Waltery, aged 55, was appointed as our independent non-executive Director on 24 April 2015. Mr. Law is the chairman of our Audit Committee and a member of each of our Risk Management Committee and Remuneration Committee.

Mr. Law is currently a senior vice president of the finance and corporate development of Gold Peak Industries (Holdings) Limited, a company listed on the Hong Kong Stock Exchange (Hong Kong stock code: 0040). He has over 31 years of experience in financial audit, financial due diligence reviews, mergers and acquisitions, corporate restructuring, accounting and corporate finance advisory.

Since November 2016, Mr. Law has been a non-executive director of In Technical Productions Holdings Limited (Hong Kong stock code: 8446). Since November 2017, Mr. Law has been an independent non-executive director, chairman of the audit committee, and a member of the nomination committee of Vicon Holdings Limited (Hong Kong stock code: 3878). Since November 2017, Mr. Law has been an independent non-executive director, chairman of the audit committee, and a member of each of the remuneration committee and nomination committee of Solis Holdings Limited (Hong Kong stock code: 2227). Since 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.

Previously, Mr. Law was an executive partner of Profundas Capital Limited, a private equity and investment advisory firm from December 2010 to January 2018 and had been the chief financial officer and non-executive director of Nine Dragons Paper (Holdings) Limited (Hong Kong stock code: 2689), from June 2004 to July 2008 and from August 2008 to October 2008, respectively. Mr. Law also served in different key roles such as chief financial officer and vice president of the finance department in four other companies between December 1992 and May 2004, all of which were listed on the main board of the Hong Kong Stock Exchange at the relevant time. Mr. Law had worked in the audit division of Coopers & Lybrand (currently known as PricewaterhouseCoopers) between August 1987 and November 1992. Mr. Law was 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) for the period from September 2014 to June 2018.

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

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

Mr. Li Zongjin, aged 66, was appointed as our independent non-executive Director on 24 April 2015. He has been the Chair Professor of the Institute of Applied Physics and Materials Engineering at the University of Macau since January 2017. Mr. Li graduated from Zhejiang University, China with a bachelor's degree in structure engineering in 1982. Mr. Li further obtained his master of science in December 1990 and his Ph.D. in December 1993 from Northwestern University, United States of America. Mr. Li is a fellow of the American Concrete Institute and was a member of the Hong Kong Institute of Engineers.

Mr. Li has over 29 years of experience in the field of civil and structural engineering and has published 6 books in the area of materials engineering. In August 2008, Mr. Li was appointed as a chief scientist under the National Basic Research Program of China (973 Project). Mr. Li's research project on geopolymer-based structural materials preparation technology was awarded second prize by the PRC Ministry of Education in January 2010. Mr. Li received the Arthur R. Anderson Medal from American Concrete Institute in 2017. In July 2017, Mr. Li retired from the Department of Civil and Environmental Engineering of the Hong Kong University of Science and Technology where he was a professor for 24 years.

Mr. Lee Wai Yat, Paco, aged 53, was appointed as our independent non-executive Director on 24 April 2015. He has been the general manager (business development, global frozen and related business) of Thai Union Group Public Company Limited (formerly known as Thai Union Frozen Products Public Company Limited) (Stock Exchange of Thailand code: TU) since February 2017. He is also the non-executive director of Avanti Feeds Limited (listed on the Bombay Stock Exchange and National Stock Exchange of India Limited, ticker: AVANTI) and Pakfood Public Company Limited (Stock Exchange of Thailand code: PPC and delisted in November 2013).

Mr. Lee has over 16 years of experience in corporate finance and management. Mr. Lee graduated from Purdue University in May 1991 with a bachelor of science in management. Mr. Lee obtained his master of business administration from the Sasin Graduate Institute of Business Administration (a joint program between the Kellogg School of Management of Northwestern University, the Wharton School of University of Pennsylvania, and Chulalongkorn University) in Bangkok in March 1993.

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

Fok Wai Shun, Wilson, aged 44, was appointed as our independent non-executive Director on 24 April 2015. Mr. Fok has over 19 years of experience in the fields of corporate finance, accounting and investment banking. Mr. Fok holds a double bachelor degree in commerce and in laws from the University of Melbourne. Mr. Fok was admitted as a solicitor and barrister of the Supreme Court of Victoria, Australia in 1998 and is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of Certified Public Accountants, Australia.

Mr. Fok previously worked in the Assurance and Corporate Finance and Recovery departments of PricewaterhouseCoopers from 2000 to 2004. From 2004 to 2010, Mr. Fok served in various positions at the investment banking division of Piper Jaffray Asia Limited. From 2010 to 2014, Mr. Fok served at the corporate finance division of CCB International Capital Limited where his last position was executive director. From 2015 to 2018, he was the managing director of Challenge Capital Management Limited. He is currently a managing director of Titan Financial Services Limited.

Senior Management

Mr. Tsang Chin Pang, aged 40, joined the Group in July 2016 and was appointed as the chief financial officer and company secretary of the Group on 30 November 2016. He is responsible for the financial planning and management, tax, corporate finance and company secretarial matters of the Group. Mr. Tsang graduated from the Hong Kong University of Science and Technology with a bachelor of business administration in finance. Mr. Tsang is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tsang has over 17 years of experience in the field of finance and accounting. Prior to joining the Group, Mr. Tsang worked in the Assurance and Advisory Business Services department of Ernst & Young from September 2001 to February 2004 and PricewaterhouseCoopers from February 2004 to July 2007, respectively. Mr. Tsang also worked in the Mergers and Acquisitions Transaction Services department of Deloitte from September 2007 to February 2011. Mr. Tsang was the chief financial officer and company secretary of Realord Group Holdings Limited (Hong Kong stock code: 1196) for the period from February 2011 to July 2016.

Corporate Governance Practices

The Board has committed to maintaining high corporate governance standards.

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

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

In the opinion of the Directors, throughout the year ended 31 December 2018, the Company has complied with all the code provisions as set out in the CG Code.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

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

Board of Directors

The Board currently comprises eleven members, consisting of five executive Directors, two non-executive Directors and four independent non-executive Directors. The executive Directors, non-executive Directors and independent non-executive Directors during the year ended 31 December 2018 were as follows:

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

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

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

The biographical information of the Directors as well as the relationships between the members of the Board are set out under "Biographical Details of Directors and Senior Management" on pages 19 to 23 of this Annual Report.

Chairman and Chief Executive Officer

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

Independent Non-executive Directors

During the year ended 31 December 2018, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Non-executive Directors and Directors' Re-election

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

Each of the executive Directors, non-executive Directors and independent non-executive Directors (except Mr. Alain Vincent Fontaine) has entered into a service agreement with the Company for an initial term of three years commencing from 27 May 2015 and renewed his/her service agreement with the Company for a further period of three years commencing from 27 May 2018. Each of their appointments is subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the articles of association of the Company (the "Articles of Association") and the Listing Rules.

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

During the year ended 31 December 2018, all Directors had provided to the Company their training records. All Directors participated in continuous professional development exercise by way of attending seminars/conferences/forums organised by professional organisations and keep themselves updated on the roles, functions and duties of a listed company director. In addition, relevant reading materials including directors' manual, legal and regulatory update and seminar handouts have been provided to the Directors for their reference and studying. The trainings attended by the Directors are in the areas of corporate governance, regulatory update, financial management, director's duties and responsibilities, environmental, social and governance, business skills and knowledge, etc. The Company is of the view that all Directors have complied with code provision A.6.5 of the CG Code.

Board Committees

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

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

Audit Committee

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

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

During the year ended 31 December 2018, the Audit Committee held two meetings to review annual financial results and report and Environmental, Social and Governance Report in respect of the year ended 31 December 2017, interim financial results and report in respect of the period ended 30 June 2018, significant issues on the financial reporting and compliance procedures, the effectiveness of the internal control and risk management systems and internal audit function, scope of work and appointment of external auditor, arrangements for employees to raise concerns about possible improprieties and to discuss the audit plan for the year ended 31 December 2018 of the Company. The attendance records of the Audit Committee are set out under "Attendance Records of Directors and Committee Members" of this Annual Report.

Remuneration Committee

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

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

During the year ended 31 December 2018, the Remuneration Committee held one meeting to make recommendations to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters. The attendance records of the Remuneration Committee are set out under "Attendance Records of Directors and Committee Members" of this Annual Report.

Details of the remuneration of the senior management for the year ended 31 December 2018 are set out in notes 9(b) and 36 in the "Notes to the Financial Statements" of this Annual Report.

Nomination Committee

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

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

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's board diversity policy (the "Board Diversity Policy"). The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Company's director nomination policy (the "Director Nomination Policy") that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the year ended 31 December 2018, the Nomination Committee held one meeting to review the structure, size and composition of the Board, the independence of the independent non-executive Directors, the Board Diversity Policy and to consider the qualifications of the retiring Directors standing for election at the annual general meeting of the Company. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained. The attendance records of the Nomination Committee are set out under "Attendance Records of Directors and Committee Members" of this Annual Report.

Risk Management Committee

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

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

During the year ended 31 December 2018, the Risk Management Committee held four meetings to review and make recommendation on the adequacy and effectiveness of the Group's risk management and internal control systems. The attendance records of the Risk Management Committee are set out under "Attendance Records of Directors and Committee Members" of this Annual Report.

Board Diversity Policy

The Company has adopted the Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee.

The Company has adopted the Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2018, there was no change in the composition of the Board apart from the passing away of Mr. Yu Ronghua, an executive Director on 13 January 2018.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

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

During the year ended 31 December 2018, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Records of Directors and Committee Members

The attendance records of each Director at the Board and Board committee meetings and the annual general meeting of the Company held during the year ended 31 December 2018 are set out in the table below:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee	Annual General Meeting
Mr. Choi Hung Nang	6/6	–	–	1/1	–	1/1
Ms. Choi Kwan Li, Glendy	6/6	2/2	1/1	1/1	4/4	1/1
Mr. Choi Hon Ting, Derek	5/6	–	–	–	–	0/1
Mr. Liu Tom Jing-zhi	5/6	–	–	–	4/4	1/1
Mr. Lao Kam Chi	5/6	–	–	–	–	0/1
Mr. Yu Ronghua *(passed away on 13 January 2018)*	0/6	–	–	–	–	0/1
Mr. Chan Lewis	5/6	–	–	–	–	1/1
Mr. Alain Vincent Fontaine	5/6	–	–	–	–	1/1
Mr. Law Wang Chak, Waltery	5/6	2/2	1/1	–	4/4	1/1
Mr. Li Zongjin	5/6	2/2	–	1/1	–	1/1
Mr. Lee Wai Yat, Paco	5/6	2/2	–	1/1	–	1/1
Mr. Fok Wai Shun, Wilson	5/6	2/2	1/1	–	4/4	1/1

Apart from regular Board meetings, the Chairman also held one meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year ended 31 December 2018.

Directors' Responsibility in Respect of the Financial Statements

Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 48 to 51 of this Annual Report.

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

Auditor's Remuneration

An analysis of the fees charged by the external auditor of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended 31 December 2018 is set out below:

Service Category	Fees RMB'000
Audit Services	1,686
Non-audit Services	74
	1,760

Risk Management and Internal Controls

Role of the Board

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

The Board has reviewed the risk management and internal control systems of the Group and considered them to be effective and adequate and did not note any material deviation during the year ended 31 December 2018. The management has confirmed to the Board, the Audit Committee and the Risk Management Committee on the effectiveness of the risk management and internal control systems of the Company for the year ended 31 December 2018.

Framework of the Risk Management and Internal Control Systems

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

Board

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

Audit Committee and Risk Management Committee

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

Management

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

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

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

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

Risk Identification:

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

Risk Assessment:

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

Risk Response:

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

Risk Monitoring and Reporting:

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

Internal Audit Function

The Group has its internal audit function to conduct the annual review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2018. Such review is conducted annually. The scope of review was previously determined and approved by the Audit Committee and the Risk Management Committee. Major findings and areas for improvement have been reported to the Audit Committee and the Risk Management Committee. All recommendations from the risk management and internal control review adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Group therefore considered that the risk management and internal control systems are effective and adequate.

Whistleblowing Policy

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

Disclosure Policy

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

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

Company Secretary

Mr. Tsang Chin Pang, who is also the chief financial officer of the Company, was appointed by the Board as the company secretary of the Company with effect from 30 November 2016. The role of the company secretary is to ensure good information flow within the Board and between the Board and senior management, provide advice to the Board in relation to directors' obligations under the Listing Rules and applicable laws and regulations and assist the Board in implementing corporate governance practices. In accordance with Rule 3.29 of the Listing Rules, the Company has received training information from Mr. Tsang, pursuant to the content of which, the Company confirmed that Mr. Tsang had taken not less than 15 hours of relevant professional trainings to update his skills and knowledge during the year ended 31 December 2018.

Shareholders' Rights

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

Procedure for shareholders to convene an extraordinary general meeting

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

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

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

Procedure for putting forward enquiries

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

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

Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors/Investor Relations

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

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

There was no change in the Articles of Association during the year ended 31 December 2018. An up to date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Policy relating to shareholders

The Company has adopted a dividend policy (the "Dividend Policy") on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval. Such details have been disclosed in the annual report of the Company.

Deed of Non-Competition Undertakings

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

The Company has received a declaration made by the Controlling Shareholders in compliance with the deed of non-competition for the year ended 31 December 2018.

The independent non-executive Directors have conducted a review on the compliance and enforcement of the deed of non-competition by the Controlling Shareholders for the year ended 31 December 2018.

Compliance with the Sanctions Undertaking

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

During the year ended 31 December 2018, the internal control committee of the Company, which members are Mr. Tsang Chin Pang (Chief Financial Officer) and Ms. Ng Po Fung (assistant to the Chief Executive Officer), held a meeting to evaluate the Group from a sanctions risk perspective and to ensure the nature and location of the activities or business, as well as the identity of the counterparties and the products involved, etc., would not violate the Sanctions Undertaking.

REPORT OF THE DIRECTORS

The Directors are pleased to present the Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

Principal Place of Business

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

Principal Activities and Business Review

The principal activities of the Group are manufacturing, distribution, research and development and operating lease of asphalt mixing plants and provision of machinery finance service. The principal activities and other particulars of the subsidiaries are set out in note 17 to the financial statements. During the year, there was no significant change in the Group's principal activities.

Detailed business review, including further discussions of the risks and uncertainties facing the Group, likely future development of the Group's business, and analysis on the financial key performance indicators, are set out in the Chairman's Statement on pages 4 to 5 of this Annual Report and the Management Discussion and Analysis on pages 6 to 18 of this Annual Report. These discussions form part of this Report of the Directors.

Results and Dividends

The loss of the Group for the year ended 31 December 2018 and the state of affairs of the Company and the Group as at 31 December 2018 are set out in the audited consolidated financial statements on pages 52 to 122 of this Annual Report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018. No interim dividend has been declared for the year ended 31 December 2018.

Five Year Financial Summary

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

Distributable Reserves

The distributable reserves of the Company as at 31 December 2018 amounted to RMB438,554,000.

Non-current Assets

Details of acquisitions and other movements in non-current assets (including property, plant and equipment, land use right, investment property and intangible assets) during the year are set out in notes 13 to 16 to the financial statements.

Investment Property

As at 31 December 2018, the Group had no investment property held for development and/or sales and for investment purposes.

Share Issued in the Year

No shares were issued during the year ended 31 December 2018.

Debentures Issued in the Year

No debentures were issued by the Company during the year ended 31 December 2018.

Pre-Emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

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

Major Customers and Suppliers

During the year ended 31 December 2018, aggregate sales to the Group's largest and five largest customers accounted for 16.6% (2017: 8.2%) and 33.8% (2017: 22.3%), respectively, of the Group's total revenue for the year.

Aggregate purchases from the Group's largest and five largest suppliers accounted for 5.4% (2017: 4.5%) and 19.2% (2017:16.6%), respectively, of the Group's total purchases for the year ended 31 December 2018. Aggregate purchases from the Group's largest and five largest subcontractors accounted for 6.7% (2017: 6.1%) and 21.9% (2017: 21.2%), respectively, of the Group's total purchases for the year ended 31 December 2018.

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

Relationship with Employees

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

Directors

The Directors during the year ended 31 December 2018 and up to the date of this Annual Report were:

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

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

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

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

Pursuant to Article 84 of the Articles of Association, Ms. Choi Kwan Li, Glendy, Mr. Liu Tom Jing-zhi, Mr. Alain Vincent Fontaine and Mr. Li Zongjin shall retire from the office by rotation at the forthcoming annual general meeting. All the retiring Directors, being eligible, will offer themselves for re-election.

Biographical Details of Directors and Senior Management

Biographical details of the Directors and the senior management of the Company are set out on pages 19 to 23 of this Annual Report.

Directors' Service Contracts

Each of the executive Directors, non-executive Directors and independent non-executive Directors (except Mr. Alain Vincent Fontaine) has entered into a service agreement with the Company for an initial term of three years commencing from 27 May 2015 and renewed his/her service agreement with the Company for a further period of three years commencing from 27 May 2018. Each of their appointments is subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

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

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

Directors' Remuneration

Details of the remuneration of the Directors are set out in note 36 to the financial statements, which are recommended by the Remuneration Committee of the Company with reference to the salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

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

As at 31 December 2018, the interests or short positions of the Directors, the chief executives of the Company (the "Chief Executives") and their associates in the shares of the Company (the "Shares"), underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

(i) Interests in Shares and underlying shares

Name of Director	Long/Short position	Type of interest	Number of Shares and underlying shares held	Approximate percentage of shareholding in the Company
Mr. Choi Hung Nang	Long	Interest in controlled corporation(1)	345,696,000	55.74%
	Long	Interest of spouse(2)	620,000	0.10%
	Long	Beneficial owner	12,462,000	2.01%
	Long	Beneficial owner(3)	8,000,000	1.29%
Ms. Choi Kwan Li, Glendy	Long	Beneficial owner	150,000	0.02%
	Long	Beneficial owner(3)	8,000,000	1.29%
Mr. Choi Hon Ting, Derek	Long	Beneficial owner	150,000	0.02%
	Long	Beneficial owner(3)	8,000,000	1.29%
Mr. Liu Tom Jing-zhi	Long	Interest in controlled corporation(4)	13,500,000	2.18%
	Long	Interest of spouse(4)	150,000	0.02%
	Long	Beneficial owner(5)	4,000,000	0.64%
Mr. Lao Kam Chi	Long	Interest in controlled corporation(6)	9,000,000	1.45%
	Long	Beneficial owner(5)	4,000,000	0.64%
Mr. Yu Ronghua *(passed away on 13 January 2018)*	Long	Interest in controlled corporation(11)	13,500,000	2.18%
	Long	Beneficial owner(12)	1,300,000	0.21%
Mr. Chan Lewis	Long	Beneficial owner(7)	600,000	0.10%
Mr. Alain Vincent Fontaine	Long	Beneficial owner(8)	300,000	0.05%
Mr. Law Wang Chak, Waltery	Long	Beneficial owner	1,850,000	0.30%
	Long	Beneficial owner(9)	670,000	0.11%
Mr. Li Zongjin	Long	Beneficial owner(7)	600,000	0.10%
Mr. Lee Wai Yat, Paco	Long	Beneficial owner(7)	600,000	0.10%
Mr. Fok Wai Shun, Wilson	Long	Beneficial owner(10)	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. The 620,000 Shares were held by his spouse, Ms. Tin Suen Chu. Accordingly, by virtue of the SFO, Mr. Choi Hung Nang is deemed to be interested in all the Shares in which Ms. Tin Suen Chu is interested.

3. 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 year ended 31 December 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.

4. 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.

5. 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 year ended 31 December 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.

6. 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.

7. Each of Mr. Chan Lewis, Mr. Li Zongjin and Mr. Lee Wai Yat, Paco was granted 300,000 share options during the year ended 31 December 2016 and 300,000 share options during the year ended 31 December 2018 under the Share Option Scheme and was deemed to be interested in 600,000 underlying shares in respect of the share options granted.

8. Mr. Alain Vincent Fontaine was granted 300,000 share options during year ended 31 December 2018 under the Share Option Scheme and was deemed to be interested in 300,000 underlying shares in respect of the share options granted.

9. 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 year ended 31 December 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.

10. 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 year ended 31 December 2018 under the Share Option Scheme and was deemed to be interested in 800,000 underlying shares in respect of the share options granted.

11. 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.

12. 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. The 1,300,000 share options were subsequently lapsed on 12 January 2019.

Save as disclosed above, as at 31 December 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.

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

As at 31 December 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	12,462,000	2.01%
	Long	Beneficial owner	8,000,000	1.29%
	Long	Interest of spouse	620,000	0.10%
Ms. Tin Suen Chu[1]	Long	Beneficial owner	620,000	0.10%
	Long	Interest of spouse	366,158,000	59.04%
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 Mr. Choi Hung Nang is the spouse of Ms. Tin Suen Chu, Mr. Choi Hung Nang is deemed to be interested in the same number of Shares in which Ms. Tin Suen Chu is interested by virtue of the SFO.

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

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

Save as disclosed above, as at 31 December 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 Annual Report. Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other schemes of the Group) will not be counted for the purpose of calculating the Limit. Subject to the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Company may refresh the Limit at any time provided that: (i) the Limit as refreshed does not exceed 10% of the Shares in issue as at the date of the approval by the refreshed Limit; (ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Limit as refreshed; and (iii) a circular containing the information and the disclaimer, respectively required under Rule 17.02(2)(d) and Rule 17.02(4) of the Listing Rules shall be despatched to the shareholders together with the notice of the relevant general meeting. Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme at any time shall not exceed 30% of the Shares in issue from time to time.

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

On 20 April 2016 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 year ended 31 December 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 RMB8,678,000) respectively, of which the Group recognised share option expenses of approximately RMB3,531,000 (2017: RMB1,952,000) during the year ended 31 December 2018.

The fair values of the share options granted on 20 April 2016 and 5 June 2018 were estimated as at that date by an independent firm of professionally qualified valuers using the binomial options pricing model and taking into account the terms and conditions upon which options were granted.

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

The details of share options granted on 5 June 2018 under the Share Option Scheme are set out in the note 28 to the financial statements.

Particulars and movements of share options granted under the Share Option Scheme during year ended 31 December 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 31 December 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

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 31 December 2018
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, Waltery	20/4/2016	1/10/2017 – 19/4/2021	HK$0.88	130,000	–	–	–	130,000
	20/4/2016	1/10/2018 – 19/4/2021	HK$0.88	140,000	–	–	–	140,000
	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
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

Directors' Interests in Transactions, Arrangements or Contracts

No Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries and a Controlling Shareholder or any of its subsidiaries was a party subsisting during or at the end of the year ended 31 December 2018.

Directors' Interests in Competing Business

During the year ended 31 December 2018 and up to the date of this Annual Report, none of the Directors had an interest in a business, which competes or may compete with the business of the Group under the Listing Rules.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

Equity-linked Agreements

Save for the Share Option Scheme as mentioned above, the Company has not entered into any equity-linked agreements during the year ended 31 December 2018.

Permitted Indemnity Provision

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

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

Directors' Rights to Acquire Shares or Debentures

Apart from the Share Option Scheme and the exercise of share options as mentioned above, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company and any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company nor exercised any such right.

Connected Transactions and Continuing Connected Transactions

During the year ended 31 December 2018, the Group had not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of the Listing Rules.

Related Party Transactions

Details of the related party transactions undertaken by the Group during the year ended 31 December 2018 are set out in note 34 to the financial statements. These related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under the Listing Rules.

Subsequent Events

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

Sufficiency of Public Float

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

Auditor

PricewaterhouseCoopers had been appointed as the Company's auditor on 14 July 2016 following the resignation of KPMG. The consolidated financial statements for the year ended 31 December 2018 of the Group have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board
Choi Hung Nang
Chairman

Hong Kong
25 March 2019

In the view of volatile global economy, the Group has not slowed down its development. Instead, the Group has focused on reviewing and strategising its sustainability management to lie the foundation of coping upcoming economic challenges. This year is a remarkable year on our sustainable development, as the Group has conducted several initiatives, including became a member of Green Council and committed to proceed sustainable procurement; established Sustainability committee to oversee the Group's sustainability management, and obtained for green loan in support of green development. These have demonstrated the Group's dedication in contributing to green operations, which in turn sustain business growth in a long run.

Under the theme of "Echoing sustainability, promote Circular Economy", the Group's Sustainability Report will detail the implemented sustainability elements in supporting business development and values created to the community where our stakeholders belong to.

The sustainability highlights include the following

Safe manufacturing

- 14.0 injury rate per 1000 employees
- For reference: 15.7 injury rate per 1000 employees according to Hong Kong 2017OSH Statistics (https://www.labour.gov.hk/eng/osh/pdf/OSH_Statistics_2017_EN.pdf)

Smart and Green manufacturing

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

Trainings provided to employees

- 59 Topics – 47 hours on safety and security training, 137.5 hours on technical and operational training, 40 hours on managerial and professional training

Environmental performance

- 10.11 tCO_2/RMB'M revenue
- 71% of waste recycled
- 24.41 kWh ('000)/RMB'M revenue

Patents and Copyrights

- 91 registered patents - 4 invention patents, 87 utility model patents.
- 26 software copyrights

Recognition and awards

- Caring Certificate
- Green Corporate Awards
- Green Initiatives
- Green Corporate Membership
- Green Council Membership

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

pwc

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

Opinion

What we have audited

The consolidated financial statements of D&G Technology Holding Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 122, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables *Refer to note 5(a) Recoverability of trade receivables and note 20 Trade and bill receivables to the consolidated financial statements* The Group's trade receivables are principally derived from its sales of asphalt mixing plants and spare parts, and operating lease income of asphalt mixing plants. As at 31 December 2018, the Group's gross trade receivables from third party customers amounted to RMB360 million. The Group is exposed to risk of impairment of trade receivables. As at 31 December 2018, the expected credit loss amounted to RMB121 million. Management exercised judgements on estimating the level of expected credit losses by assessing future cash flows of trade receivables including a probability weighted amount determined by evaluating a range of possible outcomes based on rolling historical credit loss experience by aging pattern, credit and settlement history, financial capability of its customers, recent settlements received and the current market situation, and applying them to the receivables held at year end. The impact of economic factors, both current and future, is considered in assessing the likelihood of recovery from customers. We focused on this area because provision for impairment charge may have significant impact on the Group's consolidated statement of profit or loss for the year. Significant judgements and estimations are involved in determining the recoverability of trade receivables and the adequacy of impairment provision.	Our procedures in relation to trade receivables included: • Testing controls over the billing and collection cycle of the Group; • Testing the trade receivables ageing analysis used to assess the recoverability of receivables; • Assessing the appropriateness of the credit loss provisioning methodology used by the Group; • Assessing the estimates used to determine the expected credit losses by considering cash collection performance against historical trends; • Reviewing the accuracy of management's judgments by comparing historical provisions against actual write-offs; • Reviewing minutes of the board of Directors' meetings relating to the recoverability of trade receivables; and • Discussing with management to understand the nature and the judgment involved in estimating the expected credit loss provision on trade receivables and corroborating with correspondence with the customers. Based on the work performed, we found that management's assessments of the recoverability of trade receivables are supported by available evidence.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	**2018** **RMB'000**	2017 RMB'000
Revenue	6	**328,155**	447,927
Cost of sales	8	**(230,031)**	(277,302)
Gross profit		**98,124**	170,625
Other income and other gains, net	7	**3,240**	5,532
Distribution costs	8	**(60,572)**	(66,737)
Administrative expenses	8	**(75,290)**	(65,524)
Net impairment losses on financial assets	8	**(24,238)**	(19,153)
Operating (loss)/profit		**(58,736)**	24,743
Finance income, net	10	**9,622**	3,614
Share of profit of an associate	18	**472**	–
(Loss)/profit before income tax		**(48,642)**	28,357
Income tax credit/(expense)	11	**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	12		
– basic (RMB cents)		**(7.81)**	3.41
– diluted (RMB cents)		**(7.81)**	3.40

The notes on pages 58 to 122 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	**2018** **RMB'000**	2017 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

The notes on pages 58 to 122 are an integral part of these consolidated financial statements.

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	13	**189,497**	161,827
Land use right	14	**4,965**	5,095
Investment property	15	**–**	12,077
Intangible assets	16	**2,911**	3,788
Investment in an associate	18	**51,972**	–
Finance lease receivables	21	**–**	22,612
Deposits and prepayments	22	**160**	24
Deferred income tax assets	26	**21,646**	20,350
Total non-current assets		**271,151**	225,773
Current assets			
Inventories	19	**289,497**	218,450
Trade and bill receivables	20	**233,965**	393,646
Finance lease receivables	21	**–**	25,754
Prepayments, deposits and other receivables	22	**36,629**	31,205
Pledged bank deposits	23	**65,015**	90,411
Cash and cash equivalents	23	**64,407**	42,708
Income tax recoverable		**1,552**	–
Total current assets		**691,065**	802,174
Total assets		**962,216**	1,027,947
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**4,897**	4,897
Other reserves		**566,476**	559,091
Retained earnings		**125,791**	176,828
Total equity		**697,164**	740,816

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Deposits received from customers	25	**–**	5,294
Current liabilities			
Borrowings	24	**60,102**	60,150
Contract liabilities	25	**29,809**	–
Trade and other payables	25	**175,141**	216,387
Deposits received from customers	25	**–**	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

The consolidated financial statements on pages 52 to 122 were approved by the Board of Directors on 25 March 2019 and signed on its behalf.

Choi Hung Nang
Director

Choi Kwan Li, Glendy
Director

The notes on pages 58 to 122 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Statutory reserve (Note 29) RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017	4,897	429,396	65,290	3,921	37,885	32,791	161,749	735,929
Comprehensive income:								
Profit for the year	–	–	–	–	–	–	21,157	21,157
Other comprehensive loss:								
Currency translation differences	–	–	–	–	–	(8,443)	–	(8,443)
Total comprehensive (loss)/income	–	–	–	–	–	(8,443)	21,157	12,714
Transactions with owners in their capacity as owners								
Employee share option scheme								
– grant of share options	–	–	–	1,952	–	–	–	1,952
Transfer to statutory reserve	–	–	–	–	6,078	–	(6,078)	–
Dividends	–	(9,779)	–	–	–	–	–	(9,779)
Total transactions with owners	–	(9,779)	–	1,952	6,078	–	(6,078)	(7,827)
Balance at 31 December 2017	4,897	419,617	65,290	5,873	43,963	24,348	176,828	740,816
Balance at 1 January 2018	4,897	419,617	65,290	5,873	43,963	24,348	176,828	740,816
Change in accounting policies (Note 3)	–	–	–	–	–	–	(2,193)	(2,193)
Balance at 1 January 2018, restated	4,897	419,617	65,290	5,873	43,963	24,348	174,635	738,623
Comprehensive income:								
Loss for the year	–	–	–	–	–	–	(48,412)	(48,412)
Other comprehensive income:								
Currency translation differences	–	–	–	–	–	3,422	–	3,422
Total comprehensive income/(loss)	–	–	–	–	–	3,422	(48,412)	(44,990)
Transactions with owners in their capacity as owners								
Employee share option scheme								
– grant of share options	–	–	–	3,531	–	–	–	3,531
Transfer to statutory reserve	–	–	–	–	432	–	(432)	–
Total transactions with owners	–	–	–	3,531	432	–	(432)	3,531
Balance at 31 December 2018	**4,897**	**419,617**	**65,290**	**9,404**	**44,395**	**27,770**	**125,791**	**697,164**

The notes on pages 58 to 122 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	31(a)	**70,116**	(58,873)
Income tax paid		**(6,938)**	(9,679)
Net cash generated from/(used in) operating activities		**63,178**	(68,552)
Cash flows from investing activities			
Payments for purchases of intangible assets		**–**	(641)
Payments for purchases of property, plant and equipment		**(33,761)**	(46,691)
Proceeds from disposal of property, plant and equipment		**–**	47
Net cash outflow as a result of disposal of subsidiaries	31(e)	**(2,249)**	–
Interest received	10	**617**	588
Net cash used in investing activities		**(35,393)**	(46,697)
Cash flows from financing activities			
Proceeds from borrowings	31(b)	**43,620**	32,501
Repayments of borrowings	31(b)	**(45,509)**	(32,802)
(Addition)/release of restricted bank deposits pledged for borrowings		**(4,648)**	4,592
Dividend paid		**–**	(9,779)
Interest paid	10	**(2,497)**	(1,792)
Net cash used in financing activities		**(9,034)**	(7,280)
Net increase/(decrease) in cash and cash equivalents		**18,751**	(122,529)
Cash and cash equivalents at beginning of the year		**42,708**	169,261
Exchange gain/(loss) on cash and cash equivalents		**2,948**	(4,024)
Cash and cash equivalents at end of the year	23	**64,407**	42,708

The notes on pages 58 to 122 are an integral part of these consolidated financial statements.

1 General information

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

The Company and its subsidiaries (together, the "Group") are principally engaged in manufacturing, distribution, research and development and operating lease of asphalt mixing 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 Summary of significant accounting policies

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

2.1 Basis of preparation

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

Changes in accounting policies and disclosures

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

The adoption of the following new standards, amendments to existing standards and interpretations are mandatory for the Group's financial year beginning on 1 January 2018.

Standards	Subject
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 HKFRS 9 and HKFRS 15 are disclosed in Note 3 below. The adoption of the other new standards, amendments to existing standards and interpretations did not have material impact on the Group's accounting policies.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policies and disclosures (Continued)

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

The following new standards, amendments to existing standards 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**	**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.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policies and disclosures (Continued)

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

HKFRS 16 Leases (Continued)

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 were approximately RMB2,681,000, among which less than one year was RMB1,970,000 and more than one year but less than five years was 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.

2.2 Consolidation

2.2.1 Subsidiaries

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

(a) Business combinations

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

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

2.2.1 Subsidiaries (Continued)

(a) Business combinations (Continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(b) Disposal of subsidiaries

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

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

2.2.2 Separate financial statements

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

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

2.2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the equity accounted investee have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investment is tested for impairment in accordance with the policy described in Note 2.10.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

2 Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

(d) Disposal of foreign operation and partial disposal

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

2.5 Land use right

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

2 Summary of significant accounting policies (Continued)

2.6 Property, plant and equipment

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

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

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

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

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

2.7 Investment property

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

2.8 Construction-in-progress

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

2 Summary of significant accounting policies (Continued)

2.9 Intangible assets

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

2.10 Impairment of non-financial assets

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

2.11 Financial assets

2.11.1 Classification

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 financial 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.

2.11.2 Recognition and measurement

(i) 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.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets (Continued)

2.11.2 Recognition and measurement (Continued)

(i) Measurement (Continued)

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.

(ii) 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.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets (Continued)

2.11.2 Recognition and measurement (Continued)

(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 reorganisation, 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.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets (Continued)

2.11.3 Offsetting financial instruments

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

2.12 Inventories

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

2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade and other payables

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

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

2.17 Financial guarantee contracts

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

2 Summary of significant accounting policies (Continued)

2.18 Borrowings

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

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

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

2.19 Borrowing costs

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

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

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

2.20 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

2 Summary of significant accounting policies (Continued)

2.20 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

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

Outside basis differences
Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(c) Offsetting

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

2.21 Employee benefits

(a) Defined contribution schemes

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

(b) Performance bonus

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

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

(c) Employee leave entitlements

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

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

2 Summary of significant accounting policies (Continued)

2.22 Equity-settled share-based payment transactions

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

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

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

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

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

2.23 Provisions

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

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

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

2.24 Contingent liabilities

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

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

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods or rendering of services in the ordinary course of the Group's activity.

Revenue is recognised when or as the control of the good or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset that an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services is transferred over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services. Specific criteria where revenue is recognised are described below:

(i) Sale of goods

The Group manufactures and sells asphalts mixing plants, spare parts, asphalt mixture and bitumen. 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.

(ii) Equipment modification service income

Equipment modification service income is recognised when services are rendered.

(iii) Rental income from operating leases

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

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition (Continued)

(iv) 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.

(iii) Rental income from operating leases

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

2 Summary of significant accounting policies (Continued)

2.26 Interest income

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

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grant relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.28 Rental income from investment property

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

2.29 Leases

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

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

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

2.30 Dividend distribution

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

3 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 statements. The relevant accounting policies are set out in Note 2.11 and Note 2.25 respectively.

The Group used modified retrospective approach without restating comparative information when 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 as at 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 table shows 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 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 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

3 Changes in accounting policies (Continued)

(a) HKFRS 9 – 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 adoption of HKFRS 9 results in a change in the balance of loss allowance of trade receivables as at 1 January 2018. Please refer to Note 4.1(b) for the Group's financial assets that are subject to HKFRS 9's new expected credit loss model and the details of the credit loss assessment for each of these classes of financial assets.

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 upon adoption of HKFRS 9	2,960
Opening loss allowance as at 1 January 2018 — HKFRS 9	93,166

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, net	(2,960)
Related tax effect of the above adjustment	444
Opening retained earnings— HKFRS 9	174,312

3 Changes in accounting policies (Continued)

(b) HKFRS 15 — Impact of adoption

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

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.

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	(18,910)	18,910
Opening balance – HKFRS 15	197,477	18,910

In addition, management has identified certain shipping costs in respect of certain unsatisfied performance obligations as at 1 January 2018. As a consequence, contract assets of RMB380,000 were recognised as at 1 January 2018.

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	380
Related tax effect of the above adjustment	(57)
Opening retained earnings— HKFRS 9 and HKFRS 15	174,635

4 Financial risk management

4.1 Financial risk factors

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

(a) Market risk

(i) Currency risk

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

As at 31 December 2018, certain RMB denominated cash and deposits were held by Hong Kong group entities, the functional currency of which is HK$ (2017: Same). If RMB had strengthened/weakened by 5% (2017: Same) against HK$ with all other variables held constant, the post-tax loss (2017: post-tax profit) for the year would have been RMB291,000 lower/higher (2017: RMB340,000 higher/lower), mainly as a result of foreign exchange gains/losses on these RMB denominated cash and deposits.

The currency risk on assets and liabilities denominated in USD which were mainly held by Hong Kong group entities, the functional currency of which is HK$, is considered to be minimal as HK$ is currently pegged to USD (2017: Same).

The currency risk on assets and liabilities denominated in EUR, PKR and SGD is considered to be minimal as the Group had limited Euro, PKR and SGD denominated assets and liabilities (2017: Same).

The currency risk on assets and liabilities denominated in HK$ which were held by PRC group companies, the functional currency of which is RMB, is considered to be minimal as these group companies had limited HK$ denominated assets and liabilities (2017: Same).

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow interest rate risk

The Group's interest rate risk arises from bank borrowings. Except for the borrowings of RMB25,060,000 (2017: RMB25,000,000) which were at fixed rates, other borrowings of the Group were at floating rates (2017: Same). Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates.

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

At 31 December 2018, if interest rates on borrowings had been 100 basis points higher/lower (2017: Same) with all other variables held constant, post-tax loss (2017: post-tax profit) for the year would have been RMB293,000 higher/lower (2017: RMB294,000 lower/higher), mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

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

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

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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

As at 31 December 2018, the top 5 trade receivable balances account for 27% (2017: 12%) of the Group's total year end gross trade receivable balances.

Impairment of financial assets

The Group has the following financial assets that are subject to HKFRS 9's new expected credit loss model:

- Cash and cash equivalents
- Pledged bank deposits
- Trade receivables
- Other receivables

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

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

For other receivables, the identified impairment loss was also immaterial.

For 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.

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.

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Impairment of financial assets (Continued)

Upon the adoption of HKFRS 9 and based on the above assessment methodology, management determined the loss allowance of the Group's trade receivables as at 31 December 2018 and 1 January 2018 as follows:

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
31 December 2018					
Gross trade receivables	175,332	79,782	52,233	52,521	359,868
Weighted average expected loss rate	7%	37%	62%	92%	
Loss allowance	11,395	29,354	32,146	48,202	121,097
1 January 2018					
Gross trade receivables	250,988	100,495	107,328	33,169	491,980
Weighted average expected loss rate	4%	9%	47%	74%	
Loss allowance	9,302	8,916	50,250	24,698	93,166

The changes in loss allowances for trade receivables are set out as follows:

	RMB'000
31 December 2017 – calculated under HKAS 39	90,206
Amounts restated through opening retained earnings	2,960
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	93,166
Increase in loss allowance recognised in consolidated profit or loss during the year	27,931
At 31 December 2018	121,097

Impairment losses on trade receivables are presented as net impairment losses on financial assets within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Impairment of financial assets (Continued)

Previous accounting policy for impairment of trade receivables

For trade receivables, the amount of the impairment 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, 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.

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

Management considers that the credit risk on other receivables is minimal after considering the financial conditions of these entities. Management has performed assessment over the recoverability of these balances and does not expect any losses from non-performance by these companies.

(c) Liquidity risk

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

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

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

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	At 31 December 2018 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount on consolidated statement of financial position RMB'000
Borrowings	**62,389**	**–**	**62,389**	**60,102**
Trade and other payables (Note)	**169,851**	**–**	**169,851**	**169,851**
	232,240	**–**	**232,240**	**229,953**

	At 31 December 2017 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount on consolidated statement of financial position RMB'000
Borrowings	62,892	–	62,892	60,150
Trade and other payables (Note)	185,241	–	185,241	185,241
Deposits received from customers	562	5,294	5,856	5,856
	248,695	5,294	253,989	251,247

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

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below summarises the maturity analysis of the Group's bank loans with a repayable on demand clause based on agreed scheduled repayments set out in the loan agreements.

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**49,389**	49,121
Between 1 and 2 years	**918**	871
Between 2 and 5 years	**9,795**	2,612
Over 5 years	**–**	7,546
	60,102	60,150

Taking into account the Group's financial position, the Directors do not consider that it is probable that the banks will exercise their discretions to demand immediate repayment. The Executive Directors believe that such loans will be repaid in accordance with the scheduled repayment dates as set out in the loan agreements.

4.2 Capital risk management

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

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

4.3 Fair value estimation

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

Disclosures of the investment property that is measured at fair value are set out in Note 15 to the consolidated financial statements.

4.4 Offsetting financial assets and financial liabilities

No financial assets and financial liabilities were subject to offsetting, enforceable master netting arrangements and similar agreements as at 31 December 2018 and 2017.

5 Critical accounting estimates and judgments

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

(a) Recoverability of trade receivables

Provision for expected credit losses is made when the Group will not collect all amounts due. The provision is determined by grouping together trade debtors with similar risk characteristics and collectively or individually assessing them for likelihood of recovery. The provision reflects lifetime expected credit losses i.e. possible default events over the expected life of the trade receivables, weighted by the probability of that default occurring. Judgment has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of customers and the likelihood of recovery assessed on a combination of collective and individual basis as relevant. While the provision is considered appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provision recorded and consequently on the charge or credit to profit or loss.

(b) Net realisable value of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. These estimates are based on the market condition and the historical experience of selling prices of similar nature. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed.

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

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

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

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

5 Critical accounting estimates and judgments (Continued)

(e) Income taxes

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

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

6 Segment information (Continued)

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

(c) Information about major customer

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

	2018 **RMB'000**	2017 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.

(d) Contract liabilities

The Group recognised the following revenue related-contract liabilities:

	As at **31 December** **2018** **RMB'000**	As at 1 January 2018 (restated) RMB'000
Contract liabilities	**29,809**	18,910

6 Segment information (Continued)

(d) Contract liabilities (Continued)

(i) Significant change in contract liabilities

Contract liabilities of the Group mainly represent the advance payments made by customers while the underlying goods or services are yet to be provided. Contract liabilities increased as a result of the fluctuation in sales with advance payments.

(ii) Unsatisfied performance obligations

During the year ended 31 December 2018, all brought-forward contract liabilities at the beginning of the financial year were fully recognised as revenue (2017: Same).

For provision of modification services, they are rendered in a short period of time and there were no unsatisfied performance obligations as at 31 December 2018 (2017: Same).

(iii) Assets recognised from incremental costs to obtain a contract

As at 31 December 2018, there were no significant incremental costs to obtain or fulfil a contract, and no asset was recognised accordingly (2017: RMB380,000).

7 Other income and other gains, net

	2018 **RMB'000**	2017 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 (Note 15)	**760**	691
Gain on disposal of subsidiaries (Notes 17 and 18)	**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.

8 Expenses by nature

	2018 **RMB'000**	2017 RMB'000
Employee benefit expenses (including directors' emoluments) (Note 9)	**68,986**	62,852
Depreciation (Note 13)		
– Assets held for use under operating leases	**9,552**	7,534
– Other assets	**9,816**	8,529
Amortisation		
– Land use right (Note 14)	**130**	131
– Intangible assets (Note 16)	**885**	733
Provision for impairment of trade receivables, net (Note 20)	**27,931**	19,153
Reversal of impairment of other receivables (Note 22)	**(3,693)**	–
Provision for impairment of inventories (Note 19)	**3,992**	–
Write-off of property, plant and equipment (Note 13)	**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 (Note 19)	**188,723**	251,129
Freight and transportation expenses	**13,915**	13,317
Other expenses	**52,326**	44,241
Total cost of sales, distribution costs and administrative expenses and net impairment losses on financial assets	**390,131**	428,716

9 Employee benefit expenses (including directors' emoluments)

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

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

Note:

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

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

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

(b) Five highest paid individuals

The five individuals whose emoluments were the in the Group for the year included four (2017: four) directors whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining one (2017: one) individual during the year are as follows:

	2018 **RMB'000**	2017 RMB'000
Basic salaries, other allowances and benefits in kind	**1,322**	1,325
Retirement scheme contributions	**15**	15
Share-based payment expenses	**254**	–
	1,591	1,340

10 Finance income, net

	2018 RMB'000	2017 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

11 Income tax (credit)/expense

(a) Income tax (credit)/expense

	2018 RMB'000	2017 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 (Note 26)	**(852)**	(4,026)
	(230)	7,200

11 Income tax (credit)/expense (Continued)

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

	2018 RMB'000	2017 RMB'000
(Loss)/profit before tax	**(48,642)**	28,357
Notional tax on (loss)/profit before tax, calculated at the rates applicable to the jurisdictions concerned (i)	**(7,958)**	9,087
Effect of preferential tax rate (ii)	**321**	(5,231)
Tax losses for which no deferred income tax asset was recognised	**4,330**	3,492
Utilisation of previously unrecognised tax losses	**–**	(185)
Income not subject to tax	**(136)**	(114)
Tax effect of non-deductible expenses	**4,823**	1,173
Additional deduction for qualified research and development expenses (iii)	**(1,337)**	(1,210)
(Over)/under provision in prior years	**(273)**	188
	(230)	7,200

The change in weighted average applicable tax rates is mainly caused by a change in mix of (loss)/profit of different group companies which are subject to different tax rates.

(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 operated 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 PRC corporate income tax rate of 25% (2017: 25%).

(ii) A wholly-owned subsidiary of the Group, 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 it 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.

12 (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

13 Property, plant and equipment

	Leasehold land RMB'000	Plant and buildings RMB'000	Leasehold Improvements RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2018								
Opening net book amount	32,101	32,772	148	74,764	731	2,204	19,107	161,827
Additions	-	79	-	23,048	-	568	10,066	33,761
Write-off	-	(1,045)	-	(27)	-	(30)	-	(1,102)
Disposal of subsidiaries	-	-	-	(853)	-	(7)	-	(860)
Transfer from construction in progress	-	16,794	-	908	-	338	(18,040)	-
Transfer from investment property (Note 15)	12,123	878	-	-	-	-	-	13,001
Depreciation charge for the year	(43)	(2,025)	(75)	(16,238)	(357)	(630)	-	(19,368)
Exchange differences	2,254	181	5	(230)	20	8	-	2,238
Closing net book amount	46,435	47,634	78	81,372	394	2,451	11,133	189,497
At 31 December 2018								
Cost	46,538	66,687	644	144,963	2,008	6,765	11,133	278,738
Accumulated depreciation	(103)	(19,053)	(566)	(63,591)	(1,614)	(4,314)	-	(89,241)
Net book amount	46,435	47,634	78	81,372	394	2,451	11,133	189,497

	Leasehold land RMB'000	Plant and buildings RMB'000	Leasehold Improvements RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2017								
Opening net book amount	34,560	31,095	352	59,253	1,218	1,865	5,704	134,047
Additions	–	2,461	–	28,088	15	798	15,329	46,691
Disposals	–	(21)	–	(89)	–	(19)	–	(129)
Transfer from construction in progress	–	1,926	–	–	–	–	(1,926)	–
Depreciation charge for the year	(40)	(2,475)	(187)	(12,488)	(444)	(429)	–	(16,063)
Exchange differences	(2,419)	(214)	(17)	–	(58)	(11)	–	(2,719)
Closing net book amount	32,101	32,772	148	74,764	731	2,204	19,107	161,827
At 31 December 2017								
Cost	32,156	50,366	610	122,279	1,948	6,123	19,107	232,589
Accumulated depreciation	(55)	(17,594)	(462)	(47,515)	(1,217)	(3,919)	–	(70,762)
Net book amount	32,101	32,772	148	74,764	731	2,204	19,107	161,827

Depreciation expense of RMB13,588,000 and RMB5,780,000 (2017: RMB11,420,000 and RMB4,643,000) has been charged to "cost of sales" and "administrative expenses", respectively.

As at 31 December 2018, leasehold land and buildings with a total net book value of RMB36,596,000 and RMB9,928,000 were pledged as security for bank loans and bill payables, respectively (2017: RMB34,888,000 and RMB10,357,000) (Notes 24 and 25(ii)).

14 Land use right

	2018 RMB'000	2017 RMB'000
At 1 January	**5,095**	5,226
Amortisation charge for the year (Note 8)	**(130)**	(131)
At 31 December	**4,965**	5,095

Land use right with net book value of RMB4,965,000 (2017: RMB5,095,000) represent pieces of land located in the PRC with lease periods of 50 years expiring in 2056, which were pledged as security for bill payables as at 31 December 2018 (Note 25(ii)).

15 Investment property

	2018 RMB'000	2017 RMB'000
At fair value		
Opening balance at 1 January	**12,077**	12,266
Fair value gain (Note 7)	**760**	691
Exchange differences	**164**	(880)
Transferred to property, plant and equipment for own use	**(13,001)**	–
Closing balance at 31 December	**–**	12,077

An independent valuation of the Group's investment property was performed by the valuer, APAC Asset Valuation and Consulting Limited, to determine the fair value of the investment property as at 5 October 2018, being the date of transfer to property, plant and equipment (the "Date of Transfer") with reference to the comparable sales as available on the relevant market and where applicable, valued on the basis of capitalisation of future rental income (31 December 2017: Same).

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

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

The valuation technique used by the valuer is direct comparison approach, under which the fair value as at the Date of Transfer is estimated by assuming sale of property interest in its existing stake by making reference to comparable sale transactions in the relevant market (31 December 2017: Same).

15 Investment property (Continued)

The significant unobservable inputs are average market values ranging from HK$12,784 to HK$15,732 per square foot (2017: average market values ranging from HK$10,337 to HK$12,984 per square foot). An increase in average market value per square foot will result in an increase of fair value of the investment property.

The fair value of the investment property at 31 December 2017 using significant unobservable inputs (Level 3) amounted to HK$14,500,000 (equivalents to RMB12,077,000). As at the Date of Transfer, management changed the usage of investment property from leasing to own use and the fair value of the investment property at the Date of Transfer using significant unobservable inputs (Level 3) amounted to HK$15,400,000 (equivalents to RMB13,001,000).

Revaluation gain is included in "other income and other gains, net" in the consolidated statement of profit or loss (Note 7).

The investment property represents office premises located in Hong Kong. Rental income recognised in the consolidated statement of profit or loss for the year ended 31 December 2018 amounted to RMB162,000 (2017: RMB431,000) (Note 7).

16 Intangible assets – Computer software

	RMB'000
Year ended 31 December 2017	
Opening net book amount	3,890
Additions	641
Amortisation charge (Note 8)	(733)
Exchange difference	(10)
Closing net book amount	3,788
At 31 December 2017	
Cost	5,633
Accumulated amortisation	(1,845)
Net book amount	3,788
Year ended 31 December 2018	
Opening net book amount	3,788
Amortisation charge (Note 8)	(885)
Exchange difference	8
Closing net book amount	2,911
At 31 December 2018	
Cost	5,641
Accumulated amortisation	(2,730)
Net book amount	2,911

The Group's intangible assets mainly represent computer software. Amortisation of approximately RMB885,000 (2017: RMB733,000) is included in administrative expenses.

17 Subsidiaries

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

Particulars of the principal subsidiaries as at 31 December 2018 and 2017 are shown as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Proportion of ordinary shares directly held by the Company	Proportion of ordinary shares held by the Group
Rich Benefit International Limited ("Rich Benefit") (萬利國際有限公司)	British Virgin Islands	Investment holding	100 shares of US$1 each (2017: Same)	100% (2017: Same)	100% (2017: Same)
BW Enterprise Company Limited ("BW Enterprise") (百威企業有限公司)	Hong Kong	Investment holding	HK$30,000,000 (2017: Same)	– (2017: Same)	100% (2017: Same)
Langfang D&G Machinery Technology Company Limited* (廊坊德基機械科技有限公司)	The PRC	Manufacture of asphalt mixing plants	Registered and total paid-in capital of RMB200,000,000 (2017: Same)	– (2017: Same)	100% (2017: Same)
Tianjin D&G Machinery Equipment Leasing Company Limited* (天津德基機械設備租賃有限公司)	The PRC	Leasing of asphalt mixing plants	Registered and total paid-in capital of RMB2,563,680 (2017: Same)	– (2017: Same)	100% (2017: Same)
Primach Technology Pte Ltd ("Primach")	Singapore	Sales of asphalt mixing plants	SGD10,000 (2017: Same)	– (2017: Same)	100% (2017: Same)
D&G Machinery Pakistan Co. (Private) Limited	Pakistan	Leasing of asphalt mixing plants	10,000 shares of PAK10 each (2017: same)	– (2017: Same)	99.98% (2017: Same)
Super Diamond Group Ltd	British Virgin Islands	Leasing of property	100 shares of US$1 each (2017: Same)	– (2017: Same)	100% (2017: Same)
Topp Financial Leasing (Shanghai) Co., Ltd.* (拓菩融資租賃(上海)有限公司)	The PRC	Leasing of asphalt mixing plants	Registered capital of RMB150,000,000 (2017: RMB70,000,000) and total paid-in capital of RMB150,000,000 (2017: RMB50,000,000)	– (2017: Same)	N/A (Note 18) (2017: 100%)
Binzhou Detai Road Materials Co., Ltd. * (濱州市德泰道路材料有限公司) (Note (i))	The PRC	Sales of asphalt mixture	Registered capital of RMB5,000,000 (2017: Same)	– (2017: Same)	– (2017: 100%)

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

Note (i): The Group disposed of the entire equity interest in the entity to an independent third party on 15 October 2018 without any consideration and a gain on disposal of approximately RMB50,000 was recognised in "other income and other gains, net" (Note 7).

Except for D&G Machinery Pakistan Co. (Private) Limited, all subsidiaries of the Group are wholly-owned. There was no material non-controlling interest as at 31 December 2018 (2017: Same).

18 Investment in an associate

The movement of the investment in an associate during the year is as follows:

	2018 RMB'000
Balance at 1 January	–
Addition (Note)	**51,500**
Share of profit	**472**
Balance at 31 December	**51,972**

Set out below is the associate of the Group as at 31 December 2018 which, in the opinion of the directors, is material to the Group. The entity listed below has paid-in capital consisting solely of equity interest, which is held indirectly by the Group.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of relationship	Measurement method
Topp Financial Leasing (Shanghai) Co., Ltd. (拓菩融資租賃(上海)有限公司)	The PRC	33.33%	Associate	Equity method

Note: Pursuant to an investment agreement dated 4 May 2018 between the Group, Kerry Logistics (China) Investment Company Limited ("Kerry Logistics") and Topp Financial Leasing (Shanghai) Co., Ltd. ("Shanghai Topp"), (i) the Group agreed to transfer approximately 28.57% equity interest in Shanghai Topp to Kerry Logistics for a cash consideration of RMB1.37 million; (ii) Kerry Logistics assumed the obligation to contribute the registered capital attributable to such 28.57% equity interest in the amount of RMB20 million; and (iii) Kerry Logistics agreed to contribute further capital of RMB80 million to Shanghai Topp. Upon completion of the above, Shanghai Topp is held as to approximately 33.33% by the Group and approximately 66.67% by Kerry Logistics. On 25 July 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. Shanghai Topp ceased to be a subsidiary and became an associate of the Group.

A gain on disposal of approximately RMB253,000 was recognised in "other income and other gains, net" (Note 7).

There were no commitment and contingent liability in respect of an associate as at 31 December 2018.

18 Investment in an associate (Continued)

(i) Summarised financial information of an associate

The tables below presents the summarised financial information of the associate that is material to the Group. The information disclosed reflects the amounts presented in the financial statements of the associate but not the Company's share of those amounts. They have been amended to reflect the adjustments made when using the equity method, including fair value adjustments and modifications for differences in accounting policies, where necessary.

Summarised balance sheet as at 31 December 2018

	RMB'000
Current assets	
– Cash and cash equivalents	100,964
– Other current assets	66,193
Total current assets	167,157
Total non-current assets	7
Current liabilities	
– Financial liabilities (excluding trade payables)	(11,283)
– Other current liabilities	(1,989)
Total current liabilities	(13,272)
Net assets	153,892

Reconciliation to carrying amounts

	RMB'000
Net assets as at 25 July 2018 (being the date of application of equity accounting)	52,476
Capital injection from a controlling shareholder	100,000
Profit for the period from 25 July 2018 to 31 December 2018	1,416
Closing net assets	153,892
Group's share in %	33.33%
Group's share of net assets	51,292
Fair value gain on retained investment	680
Carrying amount as at 31 December 2018	51,972

18 Investment in an associate (Continued)

(i) Summarised financial information of an associate (Continued)

Profit for the period from 25 July 2018 to 31 December 2018

	RMB'000
Revenue	2,614
Finance income, net	125
Depreciation and amortisation	(3)
Other operating expenses	(848)
Income tax expense	(472)
Profit for the period	1,416
Other comprehensive income	–
Total comprehensive income	1,416

19 Inventories

	2018 RMB'000	2017 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.

20 Trade and bill receivables

	2018 RMB'000	2017 RMB'000
Trade receivables from third parties (Notes (a) and (b))	**359,868**	491,980
Loss allowance (Note 4.1)	**(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 RMB'000	2017 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

(c) The carrying amounts of the Group's gross trade receivables were denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	**353,449**	490,014
HK$	**5,669**	1,966
PKR	**750**	–
	359,868	491,980

20 Trade and bill receivables (Continued)

(d) Fair values of trade and bill receivables

The carrying amounts of trade and bill receivables approximated their fair values.

(e) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by RMB2,960,000 for trade receivables (Note 4.1(b)).

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	2018 **RMB'000**	2017 RMB'000
31 December – calculated under HKAS 39	**93,166**	90,206
Amounts restated through opening retained earnings	**–**	2,960
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	**93,166**	93,166
Increase in loan loss allowance recognised in consolidated profit or loss during the year (Note 8)	**27,931**	–
At 31 December	**121,097**	93,166

Information about the loss allowance of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 4.1.

The creation and release of loss allowance has been disclosed in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

21 Finance lease receivables and related deposits received with customers

(a) Finance lease receivables

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

	2018 RMB'000	2017 RMB'000
Non-current		
Finance leases – gross receivables	–	24,017
Unearned finance income	–	(1,405)
	–	22,612
Current		
Finance leases – gross receivables	–	28,973
Unearned finance income	–	(3,219)
	–	25,754
Total	–	48,366
Gross receivables from finance leases:		
Not later than 1 year	–	28,973
Later than 1 year and not later than 5 years	–	24,017
		52,990
Unearned future finance income on finance leases	–	(4,624)
Net investment in finance leases	–	48,366
The net investment in finance leases is analysed as follows:		
Not later than 1 year	–	25,754
Later than 1 year and not later than 5 years	–	22,612
	–	48,366

(b) Deposits received with customers

As at 31 December 2017, deposits of RMB5,856,000 (Note 25) 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 dates as stipulated in the finance lease agreements. As at 31 December 2018, the Group had no deposits received from customers as Shanghai Topp ceased to be a subsidiary of the Group since 25 July 2018.

22 Prepayments, deposits and other receivables

	2018 RMB'000	2017 RMB'000
Non-current:		
Prepayments for purchase of property, plant and equipment	–	24
Deposits	**160**	–
	160	24
Current:		
Prepayments to suppliers	**20,015**	20,750
Other receivables and deposits	**16,614**	10,455
	36,629	31,205
Total prepayments, deposits and other receivables	**36,789**	31,229

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

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

	2018 RMB'000	2017 RMB'000
RMB	**29,689**	28,191
HK$	**6,681**	2,569
USD	**235**	420
Others	**184**	49
	36,789	31,229

22 Prepayments, deposits and other receivables (Continued)

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

	2018 RMB'000	2017 RMB'000
Balance at 1 January	**3,693**	3,693
Reversal of impairment	**(3,693)**	–
Balance at 31 December	**–**	3,693

As at 31 December 2017, a deposit of RMB3,693,000 was impaired as management considered the deposit as irrecoverable. During the year ended 31 December 2018, the amount was recovered and a reversal of impairment of RMB3,693,000 (Note 8) was included in the consolidated statement of profit or loss.

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

23 Cash and cash equivalents and pledged bank deposits

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

	2018 RMB'000	2017 RMB'000
Cash at bank and on hand	**64,407**	42,708
Restricted bank deposits pledged in respect of bank borrowings (Note 24)	**29,975**	25,327
Restricted bank deposits pledged in respect of bill payables (Note 25)	**35,040**	65,084
Total cash and cash equivalents and pledged bank deposits	**129,422**	133,119

The effective interest rate on bank deposits was 1.78% (2017: 0.6%) per annum.

The pledged bank deposits will be released upon the settlement of the relevant bill payables and borrowings.

23 Cash and cash equivalents and pledged bank deposits (Continued)

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

	2018 **RMB'000**	2017 RMB'000
RMB	**76,125**	62,405
HK$	**26,965**	53,662
EUR	**22**	1,363
SGD	**–**	226
PAK	**1,068**	–
USD	**24,774**	15,010
Others	**468**	453
	129,422	133,119

Significant restrictions

Bank balances of the Group as at 31 December 2018 amounting to RMB91,974,000 (2017: RMB54,000,000) were placed with certain banks in the PRC. The remittance of these balances is subject to the foreign exchange control restrictions imposed by the PRC government.

24 Borrowings

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

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

At 31 December 2018, all borrowings were at floating interest rates except for the loans of RMB25,060,000 (2017: RMB25,000,000) which were under fixed interest rates.

At 31 December 2018, all bank loans were secured by the corporate guarantee provided by the Company (2017: Same). Borrowings of RMB35,042,000 (2017: RMB35,150,000) were secured by the pledged bank deposits of RMB29,975,000 (2017: RMB25,327,000) and property, plant and equipment of RMB36,596,000 (2017: RMB34,888,000).

24 Borrowings (Continued)

At 31 December 2018, the Group's borrowings, without considering the repayment on demand clause, were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**49,389**	49,121
Between 1 and 2 years	**918**	871
Between 2 and 5 years	**9,795**	2,612
Over 5 years	**–**	7,546
	60,102	60,150

The carrying amounts of the Group's borrowings were denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	**25,060**	25,000
HK$	**35,042**	35,150
	60,102	60,150

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

	2018	2017
RMB	**5.26%**	5.01%
HK$	**1.85%**	2.00%

At 31 December 2018, the Group had undrawn borrowing facilities amounting to RMB24,902,000 (2017: RMB22,559,000).

25 Deposits received from customers, trade and other payables and contract liabilities

	2018 RMB'000	2017 RMB'000
Non-current:		
Deposits received from customers (Note 21(b))	**–**	5,294
Current:		
Trade payables (i)	**59,377**	49,933
Bill payables (i)	**89,782**	116,736
	149,159	166,669
Amounts due to related parties (Note 34(b))	**338**	914
Contract liabilities	**29,809**	–
Other payables and accruals	**25,644**	48,804
Deposits received from customers (Note 21(b))	**–**	562
	55,791	50,280
	204,950	222,243

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

	2018 RMB'000	2017 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

(ii) As at 31 December 2018, bill payables were secured by the Group's pledged bank deposits of RMB35,040,000 (2017: RMB65,084,000), property, plant and equipment of RMB9,928,000 (2017: RMB10,357,000) and land use right of RMB4,965,000 (2017: RMB5,095,000).

25 Deposits received from customers, trade and other payables and contract liabilities (Continued)

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

	2018 RMB'000	2017 RMB'000
RMB	**199,084**	204,434
HK$	**5,695**	5,401
USD	**95**	12,344
Others	**76**	64
	204,950	222,243

26 Deferred income tax

(a) Deferred tax assets

The balance comprises temporary differences attributable to:

	2018 RMB'000	2017 RMB'000
Provision for impairment of trade receivables	**16,325**	14,752
Unrealised profit	**1,653**	2,316
Accrued expenses and other payables	**1,671**	1,582
Product warranty provision	**182**	211
Others	**1,815**	1,489
	21,646	20,350

26 Deferred income tax (Continued)

(a) Deferred tax assets (Continued)

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

	Provision for impairment of trade receivables RMB'000	Unrealised profit RMB'000	Accrued expenses and other payables RMB'000	Product warranty provision RMB'000	Others RMB'000	Total RMB'000
Deferred tax assets arising from:						
Balance at 1 January 2017	11,740	2,008	1,868	199	509	16,324
Credited/(charged) to profit or loss	3,012	308	(286)	12	980	4,026
Balance at 31 December 2017	14,752	2,316	1,582	211	1,489	20,350
Balance at 1 January 2018	**14,752**	**2,316**	**1,582**	**211**	**1,489**	**20,350**
Change in accounting policies (Note 3)	**444**	**–**	**–**	**–**	**–**	**444**
Balance at 1 January 2018, restated	**15,196**	**2,316**	**1,582**	**211**	**1,489**	**20,794**
Credited/(charged) to profit or loss	**1,129**	**(663)**	**89**	**(29)**	**326**	**852**
Balance at 31 December 2018	**16,325**	**1,653**	**1,671**	**182**	**1,815**	**21,646**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB10,263,000 (2017: RMB5,934,000) in respect of losses amounting to RMB55,243,000 (2017: RMB32,317,000) that can be carried forward against future taxable income. Total unrecognised tax losses of RMB43,375,000 (2017: RMB25,988,000) can be carried forward indefinitely while unrecognised tax losses of RMB168,000, RMB6,161,000 and RMB5,539,000 will expire in 2021, 2022 and 2023, respectively (2017: RMB168,000 and RMB6,161,000 will expire in 2021 and 2022, respectively).

(b) Deferred tax liabilities

The PRC corporate income tax law and relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated from 1 January 2008 to overseas shareholders. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities in respect of the undistributed earnings of the Company's PRC subsidiaries of approximately RMB423,967,000 at 31 December 2018 (2017: RMB426,842,000) as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

27 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

28 Share-based payments

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

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

On 5 June 2018 (the "Date of Grant"), options to subscribe for an aggregate of 23,100,000 shares were granted to certain eligible participants under the Share Option Scheme. The exercise price in respect of each option granted under the Share Option Scheme on the Date of Grant is HK$1.12 per share. Options will be vested in two tranches on 1 October 2019 and 1 October 2020 if participants are still in employment with the Group on the respective dates.

28 Share-based payments (Continued)

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

	Average exercise price in HK$ per share option	Number of share options ('000)
At 1 January 2017, 31 December 2017 and 1 January 2018	0.88	22,370
Granted	1.12	23,100
Forfeited	0.88	(1,300)
At 31 December 2018	1.01	44,170

As at 31 December 2018, out of the 44,170,000 outstanding options (2017: 22,370,000), 21,070,000 options were exercisable (2017: 14,490,000). As at 31 December 2018, 23,100,000 and 21,070,000 outstanding share options will expire on 4 June 2023 and 19 April 2021 respectively.

The weighted average fair value of options granted during the year ended 31 December 2018 determined using the binomial valuation model was HK$0.445 per option. The significant inputs into the model were share price of HK$1.12, exercise price shown above, expected option life of five years, dividend yield of 0% and annual risk-free interest rate of 2.21%. No options were granted during the year ended 31 December 2017.

29 Statutory reserves

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the profit after income tax (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. A PRC company is required to appropriate an amount of not less than 10% of statutory profits after income tax to statutory surplus reserves, prior to distribution of its post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's operations, or to increase the capital of the company. In addition, a company may make further contribution to the discretional surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.

30 Dividends

The directors of the Company do not recommend the payment of a final dividend in respect of the year ended 31 December 2018 (2017: Nil).

A final dividend in respect of the year ended 31 December 2016 of HK$1.8 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.

31 Note to consolidated statement of cash flows

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

	Note	**2018** **RMB'000**	2017 RMB'000
(Loss)/profit before tax		**(48,642)**	28,357
Adjustments for:			
– Depreciation		**19,368**	16,063
– Amortisation		**1,015**	864
– Finance costs		**2,497**	1,792
– Interest income		**(12,119)**	(5,406)
– Share-based payment expenses		**3,531**	1,952
– Share of profit of an associate		**(472)**	–
– Net impairment loss on trade receivables		**27,931**	19,153
– Reversal of provision for impairment of other receivables		**(3,693)**	–
– Provision for impairment of inventories		**3,992**	–
– Loss on disposal of property, plant and equipment		**–**	82
– Provision for impairment of property, plant and equipment		**1,102**	–
– Fair value gain on revaluation of investment property		**(760)**	(691)
– Gain on disposal of subsidiaries		**(303)**	–
		(6,553)	62,166
Changes in working capital:			
– Inventories		**(76,286)**	(49,687)
– Trade and other receivables		**128,065**	(29,757)
– Finance lease receivables		**(2,424)**	(45,016)
– Restricted bank deposits pledged for bill payables		**30,044**	(5,972)
– Trade and other payables and deposits received from customers		**(2,730)**	9,393
Cash generated from/(used in) operations		**70,116**	(58,873)

31 Note to consolidated statement of cash flows (Continued)

(b) Liabilities arising from financing activities

	Borrowings RMB'000
As at 1 January 2017	63,271
Proceeds from new borrowings	32,501
Repayments of borrowings	(32,802)
Foreign exchange adjustments	(2,820)
As at 31 December 2017 and 1 January 2018	60,150
Proceeds from new borrowings	43,620
Repayments of borrowings	(45,509)
Foreign exchange adjustments	1,841
As at 31 December 2018	60,102

(c) Significant non-cash transactions

During the year ended 31 December 2018, the investment property of the Group was transferred to property, plant and equipment as a result of change of usage to own use. As of the Date of Transfer, the fair value of the property was RMB13,001,000 (Note 15).

During the year ended 31 December 2018, Shanghai Topp ceased to be a subsidiary of the Group and became an associate which is accounted for using the equity method. As at the date of application of equity accounting, the fair value of the investment in an associate was RMB51,500,000 (Note 18). As at 31 December 2018, the consideration due from the acquirer of RMB1,373,000 was not yet settled and was included in "prepayments, deposits and other receivables".

(d) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	2018 RMB'000	2017 RMB'000
Net book amount	–	129
Net loss on disposal of property, plant and equipment	–	(82)
Proceeds from disposal of property, plant and equipment	–	47

31 Note to consolidated statement of cash flows (Continued)

(e) Reconciliation of consideration in respect of disposal of subsidiaries

	2018 RMB'000
Consideration receivable:	
Cash consideration (Notes 17 and 18)	**1,373**
Withholding tax	**(144)**
Fair value of investment in an associate as at the date of disposal (Note 18)	**51,500**
Carrying amounts of net assets of subsidiaries disposed as at the date of disposal	**(52,426)**
Gain on disposal of subsidiaries (Note 7)	**303**

	2018 RMB'000
Cash consideration	**1,373**
Less: Cash and cash equivalents included in the subsidiaries	**(2,249)**
Cash consideration not yet received (Note 31(c))	**(1,373)**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(2,249)**

32 Commitments

(a) Capital commitments not provided for in the consolidated financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Property, plant and equipment:		
Contracted for	**3,030**	9,116
Authorised but not contracted for	**–**	8,159
	3,030	17,275

32 Commitments (Continued)

(b) Operating lease commitments – as lessee

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**1,970**	626
After 1 year but within 5 years	**711**	332
	2,681	958

(c) Operating lease commitments – as lessor

At 31 December 2018, the total future minimum lease receivables in respect of the Group's plants (2017: investment property and plants) under non-cancellable operating leases were as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**14,329**	6,990

33 Contingent liabilities

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.

34 Related party transactions

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

(a) Transactions with related parties

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

	2018 **RMB'000**	2017 RMB'000
Finance lease income from a related party:		
– Entity jointly controlled by Choi Family and an independent third party	**48**	182
Rental expense to related parties:		
– Mr. Choi Hung Nang	**–**	203
– Entities controlled by Choi Family	**–**	287
	–	490

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

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

34 Related party transactions (Continued)

(b) Year end balances

	2018 RMB'000	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	**–**	1,653
Included in other payables:		
Amounts due to related parties		
– Mr. Choi Hung Nang	**–**	547
– Entities controlled by Choi Family	**338**	367
	338	914

As at 31 December 2017, except for the finance lease receivable of RMB1,653,000 which was interest-bearing and repayable in three years, the amounts due from/to related parties were unsecured, interest free and repayable on demand.

As at 31 December 2018, the amount due to a related party was unsecured, interest free and repayable on demand.

(c) Key management compensation

The details of remuneration for key management personnel of the Group are set out in Note 36 and Note 9(b) to the consolidated financial statements.

35 Statement of financial position and reserve movement of the Company

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Investment in a subsidiary		**–**	–
Amounts due from subsidiaries		**443,935**	426,027
Total non-current assets		**443,935**	426,027
Current assets			
Other receivables		**291**	191
Cash and cash equivalents		**295**	568
Total current assets		**586**	759
Total assets		**444,521**	426,786
Equity			
Share capital		**4,897**	4,897
Reserves	(a)	**438,554**	420,889
		443,451	425,786
Current liabilities			
Other payables		**1,070**	1,000
Total liabilities		**1,070**	1,000
Total equity and liabilities		**444,521**	426,786

The statement of financial position of the Company was approved by the Board of Directors on 25 March 2019 and signed on its behalf.

Choi Hung Nang
Director

Choi Kwan Li, Glendy
Director

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

(a) Reserve movement of the Company

	Share premium RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017	429,396	7,888	3,921	60,266	(33,254)	468,217
Total comprehensive loss for the year	–	–	–	(32,296)	(7,205)	(39,501)
Employee share option scheme – grant of share options	–	–	1,952	–	–	1,952
Dividends	(9,779)	–	–	–	–	(9,779)
Balance at 31 December 2017 and 1 January 2018	**419,617**	**7,888**	**5,873**	**27,970**	**(40,459)**	**420,889**
Total comprehensive loss for the year	**–**	**–**	**–**	**22,949**	**(8,815)**	**14,134**
Employee share option scheme – grant of share options	**–**	**–**	**3,531**	**–**	**–**	**3,531**
Balance at 31 December 2018	**419,617**	**7,888**	**9,404**	**50,919**	**(49,274)**	**438,554**

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

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

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking for the year ended 31 December 2018				
	Director's fees RMB'000	Salaries, allowances and benefits in kind (including share-based compensation) RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Choi Hung Nang *(Chairman)*	152	2,353	–	–	2,505
Mr. Choi Hon Ting, Derek	152	1,424	–	23	1,599
Ms. Choi Kwan Li, Glendy *(Chief Executive Officer)*	152	1,888	–	23	2,063
Mr. Liu Tom Jing-zhi	152	1,076	–	23	1,251
Mr. Lao Kam Chi	152	1,193	–	23	1,368
Non-executive directors					
Mr. Chan Lewis	152	25	–	–	177
Mr. Alain Vincent Fontaine	152	38	–	–	190
Independent non-executive directors					
Mr. Law Wang Chak, Waltery	152	62	–	–	214
Mr. Li Zongjin	152	47	–	–	199
Mr. Lee Wai Yat, Paco	152	47	–	–	199
Mr. Fok Wai Shun, Wilson	152	62	–	–	214
	1,672	8,215	–	92	9,979

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

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

There were no amounts paid during the year to the directors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join (2017: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

No emoluments were paid or receivable in respect of directors' other services in connection with the management of affairs of the Company or its subsidiary undertakings for the year ended 31 December 2018 (2017: Nil).

There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate are connected entities (2017: Nil).

Except the transactions disclosed in Note 34(a), no other significant transactions, arrangements and contracts relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Same).