D&G TECHNOLOGY HOLDING COMPANY LIMITED
德基科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1301)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the "Board" or the "Directors") of D&G Technology Holding Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 together with the comparative figures for the same period of last year, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Unaudited	
		Six months ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**207,102**	173,043
Cost of sales		**(169,369)**	(113,787)
Gross profit		**37,733**	59,256
Other income and other (losses)/gains, net	*6*	**201**	1,220
Distribution costs		**(43,421)**	(28,851)
Administrative expenses		**(38,215)**	(33,954)
Net reversal of/(provision for) impairment losses on trade receivables		**11,138**	(36,749)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Unaudited	
		Six months ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Operating loss	*7*	**(32,564)**	(39,078)
Finance income, net		**4,853**	4,000
Share of profits of associates		**1,175**	–
Loss before income tax		**(26,536)**	(35,078)
Income tax credit	*8*	**2,508**	252
Loss for the period attributable to owners of the Company		**(24,028)**	(34,826)
Loss per share attributable to owners of the Company during the period			
– basic *(RMB cents)*	*9(a)*	**(3.87)**	(5.61)
– diluted *(RMB cents)*	*9(b)*	**(3.87)**	(5.61)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Loss for the period	**(24,028)**	(34,826)
Other comprehensive loss for the period, net of tax		
Items that may be reclassified to profit or loss		
Currency translation differences	**(1,498)**	(168)
Total comprehensive loss attributable to owners of the Company for the period	**(25,526)**	(34,994)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	**Unaudited 30 June 2019** *RMB'000*	Audited 31 December 2018 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**168,121**	189,497
Land use right		**–**	4,965
Intangible assets		**2,487**	2,911
Right-of-use assets		**6,370**	–
Interests in associates		**54,147**	51,972
Amount due from an associate		**7,388**	–
Deposits and prepayments		**800**	160
Deferred income tax assets		**24,301**	21,646
		263,614	271,151
Current assets			
Inventories		**316,201**	289,497
Trade and bills receivables	*10*	**240,624**	233,965
Prepayments, deposits and other receivables		**36,883**	36,629
Amount due from an associate		**4,776**	–
Pledged bank deposits		**56,644**	65,015
Cash and cash equivalents		**69,845**	64,407
Income tax recoverable		**–**	1,552
		724,973	691,065
Total assets		**988,587**	962,216

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2019

	Note	**Unaudited 30 June 2019** *RMB'000*	Audited 31 December 2018 *RMB'000*
EQUITY			
Share capital	*13*	**4,910**	4,897
Other reserves		**568,762**	566,476
Retained earnings		**101,562**	125,791
Total equity		**675,234**	697,164
LIABILITIES			
Non-current liabilities			
Borrowings	*11*	**3,082**	–
Lease liabilities		**232**	–
		3,314	–
Current liabilities			
Borrowings	*11*	**99,213**	60,102
Contract liabilities	*12*	**36,523**	29,809
Lease liabilities		**1,385**	–
Trade and other payables	*12*	**172,566**	175,141
Income tax payable		**352**	–
Total current liabilities		**310,039**	265,052
Total liabilities		**313,353**	265,052
Total equity and liabilities		**988,587**	962,216

NOTES

1 GENERAL INFORMATION

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

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

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

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

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting".

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2018, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2019:

- Annual Improvements 2015 – 2017 Cycle,
- HKAS 19 (Amendments) Plan Amendment, Curtailment or Settlement,
- HKAS 28 (Amendments) Long-term Interests in Associates and Joint Ventures,
- HKFRS 9 (Amendments) Prepayment Features with Negative Compensation, and
- HKFRS 16 Leases

The impact of the adoption of HKFRS 16 is disclosed in Note 4 below. The other new and amended standards did not have material impact on the Group's accounting policies, results and financial position of the Group and did not require retrospective adjustments.

3 ACCOUNTING POLICIES (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:

		Effective for annual periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

4 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 “Leases” on the Group’s condensed consolidated interim financial information and also discloses the new accounting policies that have been applied since 1 January 2019, where they are different to those applied in prior periods.

The Group has adopted HKFRS 16 without restating comparatives as permitted under specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening condensed consolidated statement of financial position on 1 January 2019.

(a) Adjustments recognised upon adoption of HKFRS 16

Upon adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as at 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.6%.

4 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Adjustments recognised upon adoption of HKFRS 16 (Continued)

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	2,681
Less: short-term and low-value leases recognised on a straight-line basis as expense	(103)
Less: discounting effect	(307)
Lease liabilities recognised as at 1 January 2019	2,271
Of which are:	
Current lease liabilities	1,555
Non-current lease liabilities	716
	2,271

The associated right-of-use assets for property leases were measured on a modified retrospective basis as if the new rules had always been applied.

Land use right of RMB4,965,000 previously presented as a separate item on the consolidated statement of financial position is grouped as part of right-of-use assets with effect from 1 January 2019.

The recognised right-of-use assets relate to the following assets:

	1 January 2019 *RMB'000*
Land use right	4,965
Properties	2,070
Total right-of-use assets	7,035

4 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Adjustments recognised on adoption of HKFRS 16 (Continued)

The change in accounting policy affected the following items in the condensed consolidated statement of financial position on 1 January 2019:

- Land use right – decrease by RMB4,965,000
- Right-of-use assets – increase by RMB7,035,000
- Lease liabilities – increase by RMB2,271,000

The net impact on retained earnings on 1 January 2019 was a decrease of RMB201,000.

The impact on disclosures of segment and loss per share is not significant.

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments on whether leases are onerous,
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) 4 "Determining whether an Arrangement contains a Lease".

(b) The Group's leasing activities and how these are accounted for

The Group leases are mainly rental of offices. Rental contracts are typically made for fixed periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

4 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) The Group's leasing activities and how these are accounted for (Continued)

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in consolidated statement of profit or loss. Short-term leases are leases with a lease term of 12 months or less.

As a lessor

The Group leases out its machineries under non-cancellable operating lease arrangements. The lease terms are up to 2 years. The Group has classified these leases as operating leases. The accounting policies applicable to the Group as a lessor in the comparative period are not different from HKFRS 16. The Group is not required to make any adjustments on transition to HKFRS 16 for leases in which it acts as a lessor. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of its revenue.

5 SEGMENT INFORMATION

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

The Group has determined that it only has one major operating segment which is the sales of asphalt mixing plants, spare parts, leasing of asphalt mixing plants and provision of equipment modification services.

Revenue consists of the following:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Sales of asphalt mixing plants	**182,954**	137,326
Sales of spare parts and provision of equipment modification services	**17,952**	18,224
Operating lease income of asphalt mixing plants	**6,196**	8,129
Sales of bitumen tanks and equipment	**–**	7,436
Finance lease income	**–**	1,928
	207,102	173,043

(a) Revenue by selling location

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
People's Republic of China (the "PRC")	**179,409**	144,610
Outside PRC	**27,693**	28,433
	207,102	173,043

5 SEGMENT INFORMATION (CONTINUED)

(b) Non-current assets

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

	Unaudited At 30 June 2019 *RMB'000*	Audited At 31 December 2018 *RMB'000*
The PRC	**185,277**	196,924
Outside PRC	**54,036**	52,581
	239,313	249,505

(c) Information about major customers

No customer with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2019 and 2018.

6 OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Other income		
Government grants *(Note)*	**940**	469
Rental income	**–**	161
Others	**61**	5
	1,001	635
Other (losses)/gains, net		
Net loss on disposal of property, plant and equipment	**(454)**	–
Exchange (loss)/gain, net	**(806)**	603
Others	**460**	(18)
	(800)	585
	201	1,220

Note:

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

7 OPERATING LOSS

Operating loss is stated after charging the following:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Cost of inventories	**135,949**	88,003
Employee benefit expenses	**37,426**	33,906
Share-based payment expenses	**2,614**	720
Depreciation		
– Assets held for use under operating leases	**5,682**	7,694
– Right-of-use assets	**832**	–
– Other assets	**4,257**	2,983
Amortisation		
– Land use right	**–**	65
– Intangible assets	**424**	454
Net (reversal of)/provision for impairment losses on trade receivables	**(11,138)**	36,749
Provision for impairment of inventories	**6,597**	–
Provision for impairment of property, plant and equipment	**5,870**	–

8 INCOME TAX CREDIT

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**–**	(2,840)
– (Under)/over-provision in prior period	**(146)**	273
Deferred income tax	**2,654**	2,819
	2,508	252

8 INCOME TAX CREDIT (CONTINUED)

No provision for Hong Kong profits tax was made for the current period (2018: Nil) as the Group had no assessable profits subject to Hong Kong profits tax for the period.

The Group's operations in the PRC are subject to PRC enterprise income tax at a statutory rate of 25% (2018: 25%).

According to the PRC enterprise income tax law and its relevant regulations, a wholly-owned subsidiary of the Company, Langfang D&G Machinery Technology Company Limited ("Langfang D&G") is qualified as a "high-technology enterprise" under the tax law and entitled to a preferential income tax rate of 15% (2018: 15%).

Under the PRC enterprise income tax law and its relevant regulations, a 75% (2018: 50%) additional tax deduction is allowed for qualified research and development expenses.

9 LOSS PER SHARE

(a) Basic

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

The calculations of the basic loss per share are as follows:

	Unaudited Six months ended 30 June	
	2019	2018
Loss attributable to owners of the Company *(RMB'000)*	**(24,028)**	(34,826)
Weighted average number of ordinary shares in issue	**621,027,000**	620,238,000
Basic loss per share *(expressed in RMB cents per share)*	**(3.87)**	(5.61)

(b) Diluted

Diluted loss per share for the period ended 30 June 2018 and 2019 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.

10 TRADE AND BILLS RECEIVABLES

	Unaudited At 30 June 2019 *RMB'000*	Audited At 31 December 2018 *RMB'000*
Trade receivables	**335,721**	359,868
Less: discounting impact	**(15,468)**	(12,104)
Less: provision for impairment	**(109,959)**	(121,097)
	210,294	226,667
Bills receivable	**30,330**	7,298
	240,624	233,965

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

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

	Unaudited At 30 June 2019 *RMB'000*	Audited At 31 December 2018 *RMB'000*
Within 1 year	**164,688**	175,332
1 to 2 years	**86,822**	79,782
2 to 3 years	**40,112**	52,233
Over 3 years	**44,099**	52,521
	335,721	359,868

Certain trade receivables relating to customers with known financial difficulties or significant doubt on settlement of receivables are assessed individually for provision for impairment allowance. Expected credit losses are estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying the expected credit loss rates to the respective gross carrying amounts of the trade receivables.

11 BORROWINGS

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

	Secured bank loans		Other borrowing *(Note)*		Total	
	Unaudited	Audited	**Unaudited**	Audited	**Unaudited**	Audited
	At	At	**At**	At	**At**	At
	30 June	31 December	**30 June**	31 December	**30 June**	31 December
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**94,871**	60,102	**4,342**	–	**99,213**	60,102
Between 1 and 2 years	**–**	–	**3,082**	–	**3,082**	–
	94,871	60,102	**7,424**	–	**102,295**	60,102

As at 30 June 2019, the Group's bank loans were secured by the corporate guarantee provided by the Company, pledged bank deposits, land use right and property, plant and equipment (31 December 2018: same).

Note:

During the period ended 30 June 2019, the Group obtained other borrowing of RMB8,800,000 from a third party by entering into an agreement pursuant to which the Group sold a machinery to the third party at a consideration of RMB8,800,000 and leased the machinery from the buyer for next 24 months at monthly rental of approximately RMB396,000. Upon the end of the lease term, the buyer is required to transfer the aforementioned machinery to the Group. The amount of RMB8,800,000 was regarded as a collaterised other borrowing as the transfer of machinery from the Group to the buyer was not qualified as a sale under HKFRS 15.

Movements of borrowings are analysed as follows:

	RMB'000
Unaudited:	
Balance at 1 January 2019	**60,102**
Repayments of borrowings	**(25,148)**
Proceeds from borrowings	**66,617**
Exchange difference	**724**
Balance at 30 June 2019	**102,295**
Unaudited:	
Balance at 1 January 2018	60,150
Repayments of borrowings	(6,454)
Proceeds from borrowings	7,660
Exchange difference	409
Balance at 30 June 2018	61,765

12 TRADE AND OTHER PAYABLES

	Unaudited At 30 June 2019 *RMB'000*	Audited At 31 December 2018 *RMB'000*
Trade payables	**73,697**	59,377
Bills payable	**73,824**	89,782
	147,521	149,159
Amounts due to related parties	**350**	338
Contract liabilities	**36,523**	29,809
Other payables and accruals	**24,695**	25,644
	61,568	55,791
	209,089	204,950

At 30 June 2019, the ageing analysis of trade and bills payables based on invoice date is as follows:

	Unaudited At 30 June 2019 *RMB'000*	Audited At 31 December 2018 *RMB'000*
Within 3 months	**134,439**	137,640
After 3 months but within 6 months	**8,146**	7,578
After 6 months but within 1 year	**3,406**	3,255
Over 1 year	**1,530**	686
	147,521	149,159

13 SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

Authorised:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares *HK$*
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	2,000,000,000	20,000,000

Issued and fully paid:

	No. of shares *('000)*	*HK$'000*	*RMB'000*
At 1 January 2018, 30 June 2018 and 1 January 2019	620,238	6,203	4,897
Exercise of options under the share option scheme *(Note)*	1,570	15	13
At 30 June 2019	621,808	6,218	4,910

Note: Proceed from exercise of share options was amounting to RMB1,183,000 for the period ended 30 June 2019 (2018: Nil).

(b) Share premium

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

14 INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2019 (30 June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

General Review

In the first half of 2019, the Group continued to be a leading market player in the road construction and maintenance machinery industry, focusing on medium to large-scale asphalt mixing plants. The Group provided one-stop customised solutions to customers in the People's Republic of China ("PRC", "China" or "Mainland China") and overseas markets, specialising in the research and development, design, manufacturing and sale of conventional and recycling asphalt mixing plants.

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

During the six months ended 30 June 2019, the Group continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were twenty-four (2018: seventeen) sales contracts of asphalt mixing plants completed by the Group during the period and the asphalt mixing plants were used in major highway construction and maintenance projects such as Gaoguang Expressway (高廣高速), Purbanchal Express, G109 Jingzang Expressway Tibet section (G109線京藏高速西藏段), etc. Due to the increase in number of road construction projects in China, revenue from sales of asphalt mixing plants increased by approximately 33.2% during the period, whereas, the sales of asphalt mixing plants accounted for approximately 88.3% (2018: 79.4%) of the total revenue of the Group. Though the total revenue of the Group increased by 19.7% to RMB207,102,000, the Group's gross profit decreased to RMB37,733,000 (2018: RMB59,256,000) which was primarily due to (1) the change of sales mix during the period of which the sales of higher capacity Recycling Plants (usually with higher gross profit margin) proportionally decreased as compared to last period; (2) impairment of inventories amounted to RMB6,597,000 (2018: Nil) as a result of slow moving raw materials and work in progress; and (3) impairment loss of property, plant and equipment of RMB5,870,000 was made during the period (2018: Nil) as a result of the continuing operating loss from operating lease business.

The proportional decrease in sales of higher capacity plants was mainly due to the delay in commissioning of the larger plants. Management expected that the sales of higher capacity plants will proportionally increase in the second half of the year. The provision for slowing moving raw materials and work in progress was primarily resulted from the change of design for customisation as required by customers. The Group has reviewed the ageing of inventories and developed procedures in place to utilise the slow moving inventories and expected the ageing of inventories could improve gradually. The Group made a gross loss in the operating lease business since 2018 which was mainly due to the delay in public-private partnership projects in China and hence there were inadequate production of asphalt mixtures of the plants leased to its customers. Since the rental income of the plants was based on the production output of asphalt mixtures, the rental income was not able to cover the fixed overheads of the plants and resulted in loss making. In order to scale down the operating lease business, the Group has disposed four asphalt mixing plants deployed to operating lease business during the period. As at 30 June 2019, there were thirteen plants under operating lease business (31 December 2018: sixteen). The Group expected that loss of the operating lease business would be narrowed down in the second half of the year and turned back to profitable once the optimal size of operating business was achieved.

Management has been cautiously monitoring the collection of trade receivables in order improve the collection cycle. During the period, management has put extra effort in receivable collection and also tightened its credit controls on client acceptance. During the period, the Group has recovered certain long overdue trade receivables of which provision for impairment loss has been made in prior years and re-assessed the recoverability of its trade receivables. Since there are more road construction projects in China and funding in place, the overall settlement from customers have also been improved, the Group has made a net reversal of provision for impairment loss of trade receivables of RMB11.1 million during the period. The Group shall strictly adhere to its credit policy and continuously strengthen its internal control procedures so as to improve the collection cycle.

The Group continued to expand its business and entered into potential markets along the "One Belt One Road" countries. Out of the twenty-four sales contracts of asphalt mixing plants completed during the period, four were completed in overseas countries including Russia, India and Kazakhstan. Although the overseas road construction projects along the "One Belt One Road" countries slowed down, during the period, the Group has signed two sales contracts with a customer in Russia which the first contract has completed during the period, the second contract is expected to be completed in the second half of the year. As at 30 June 2019, two asphalt mixing plants were exported to Pakistan for the development of local operating lease business and both plants have been leased to a local customer. To further penetrate the markets in the developing countries, the Group has newly developed the compact mobile asphalt plants series to the product line. Together with the established overseas network, the Group expects to participate in more upcoming road construction projects along the "One Belt One Road" countries.

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 to develop the production and sale of asphalt mixtures business.

Establishment of Sichuan RTDL

On 20 July 2018, the Group's wholly owned subsidiary, Langfang De Feng New Materials Technology Limited* ("Langfang De Feng"), has entered into a shareholders' agreement with Sichuan Xin De Yuan Trading Limited* ("Sichuan Xin De Yuan"), an independent third party, to establish a new company, Sichuan Rui Tong De Long New Materials Technology Limited* ("Sichuan RTDL") for the purpose of establishment of asphalt mixture plant station in Sichuan. Pursuant to the shareholders' agreement, the registered capital of Sichuan RTDL amounted to RMB10 million of which Sichuan Xin De Yuan and Langfang De Feng should contribute RMB6 million and RMB4 million, respectively, within 4 years from the date of incorporation of Sichuan RTDL. Sichuan RTDL has obtained its business license on 14 August 2018. In order to commence the operation of Sichuan RTDL, both shareholders have partially contributed its capital to Sichuan RTDL. As at 30 June 2019, the Group has contributed capital of RMB1 million to Sichuan RTDL and recorded its investment as "Interests in associates". The Group expected that with the leverage of local expertise of Sichuan Xin De Yuan, the establishment of Sichuan RTDL would push forward the application of asphalt mixture plant station with Sichuan local government.

Development of combustion technology

During the period, the Group continued to conduct research on the combustion technology in order to develop the business of manufacturing and sale of burner combustion equipment and the provision of related technical support services. The burner combustion equipment can be applied in a wide spectrum including asphalt mixing plants, furnace, heating system, etc. As at 30 June 2019, twenty-nine patents (31 December 2018: twenty-six) of combustion technology were registered and eight patents were pending registration.

Research and Development

To maintain its position as a leading market player in the road construction and maintenance machinery industry focusing on medium to large-scale asphalt mixing plants, the Group continued to maintain its strong research and development capabilities. As at 30 June 2019, the Group had ninety-nine registered patents in the PRC (of which four were invention patents) and twenty-six software copyrights. In addition, twenty-three patents were pending registration as at 30 June 2019.

Marketing and Awards

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

During the period, the Group participated in various promotional events and technical seminars such as the China Hefei Construction Technical Seminar held in Hefei, China, the IIBT and CON-MINE 2019 held in Indonesia and the Bauma CTT Russia 2019 held in Russia.

In March 2019, the Group was awarded the “HKQAA Green Finance Certification Mark” which was organised by the Hong Kong Quality Assurance Agency.

In May 2019, the Group was awarded as an “EcoChallenger” and “3 Years + EcoPioneer” in the BOCHK Corporate Environmental Leadership Awards which was organised by the Federation of Hong Kong Industries and Bank of China (Hong Kong). The awards are recognition of the Group’s contribution to the promotion of environmental protection.

Ms. Glendy Choi, the Group’s chief executive officer, was invited to be the speaker at a College Lecture of the Youth Training Program organised by the Hong Kong Young Industrialists Council on 8 March 2019. During the forum, Ms. Glendy Choi shared her experience and view with the college students on how to succeed in the asphalt mixing plant industry and how the Group seized the opportunities under “The Belt and Road Initiative”. The forum received keen and positive responses.

Outlook

In view of the ongoing US-China trade war, we believe the PRC government will continue adopting policies to stimulate the local economy and increase the fixed asset investment. Besides, in light of growing awareness on environmental protection issues during the asphalt mixture production among the road construction and maintenance companies and the PRC government's emphasis on reducing pollution from industrial sector, the demand for our recycling and environmentally-friendly products continues to grow in the long run. There will be increasing demand for the recycling asphalt plants as well as the modification services of adding recycling and environmental protection functions to existing plants. The Group will further promote green technology innovation and continue to improve its competitive advantage so as to reinforce its leading position in the market.

Investment in infrastructure overseas is a way of building up strategic partnerships with countries along the "One Belt One Road" region for the PRC government. Though there is a slowdown in the "One Belt One Road" activities, it is expected that the "Belt and Road Initiative" shall continue once the US-China trade war has cooled down. The Group is honored to participate in the major expressway construction projects of the "China-Pakistan Economic Corridor" and shall grasp the business opportunities arisen from "One Belt One Road" construction projects led by Chinese state-owned enterprises.

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

The Group expects that the local demand for asphalt mixing plants in the second half of 2019 shall gradually increase as the PRC government has injected more fund into domestic infrastructure projects to soften the possible blow to the economy from the US-China trade war. The Group has also entered into agency agreements with various direct marketing agencies in India and expected that more sales orders can be obtained from India in the near future. The management also expects the customers shall accelerate the settlements going forward as more road construction 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 six months ended 30 June 2019, the Group recorded a total revenue of RMB207,102,000 (2018: RMB173,043,000), representing an increase of approximately 19.7% as compared to the last corresponding period. Gross profit decreased from RMB59,256,000 for the six months ended 30 June 2018 to RMB37,733,000 for the six months ended 30 June 2019, representing a decrease of approximately 36.3%. Gross profit margin decreased by 16.0 percentage points from 34.2% to 18.2%. The Group recorded a net loss attributable to owners of the Company of RMB24,028,000 compared with a net loss of RMB34,826,000 in the last corresponding period.

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Sales of asphalt mixing plants	**182,954**	137,326	+33.2%
Sales of spare parts and provision of equipment modification services	**17,952**	18,224	-1.5%
Operating lease income of asphalt mixing plants	**6,196**	8,129	-23.8%
Sales of bitumen tanks and equipment	**–**	7,436	-100%
Finance lease income	**–**	1,928	-100%
	207,102	173,043	+19.7%

Sales of Asphalt Mixing Plants

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue	**182,954**	137,326	+33.2%
Gross profit *(Note)*	**49,901**	47,589	+4.9%
Gross profit margin	**27.3%**	34.7%	-7.4pp
Number of contracts	**24**	17	+7
Average contract value	**7,623**	8,078	-5.6%

Revenue from the sales of asphalt mixing plants increased as a result of the increase in number of contracts and the increase was partially offset by the decrease in the average contract value. The increase in number of contracts was mainly due to the increase in road construction projects in China and offset by the decrease in overseas sales as a result of the slowdown of overseas road construction activities. The decrease in the average contract value was primarily due to the more demand for standardised Conventional Plants than the customisation of Recycling Plants which usually have a higher average contract value. The gross profit margin decreased by 7.4 percentage points to 27.3% during the period was mainly due to the proportional decrease in the number of Recycling Plants as compared to the total plants sold during the period. Since the gross profit margin of the Recycling Plants is usually higher than the Conventional Plants, the change in sales mix resulted in a decrease in overall gross profit margin.

Note: Impairment of inventories of RMB6,597,000 was made for the period ended 30 June 2019 (30 June 2018: Nil) and charged to the "Cost of sales". The gross profit of the sales of asphalt mixing plants presented above has excluded the provision for impairment of inventories for analysis purpose.

By Types of Plants

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Recycling Plant			
Revenue	**77,860**	85,599	-9.0%
Gross profit	**26,698**	30,343	-12.0%
Gross profit margin	**34.3%**	35.4%	-1.1pp
Number of contracts	**7**	9	-2
Average contract value	**11,123**	9,511	+16.9%
Conventional Plant			
Revenue	**105,094**	51,727	+103.2%
Gross profit	**23,203**	17,246	+34.5%
Gross profit margin	**22.1%**	33.3%	-11.2pp
Number of contracts	**17**	8	+9
Average contract value	**6,182**	6,466	-4.4%

Revenue from the sales of Recycling Plants decreased by 9.0% which was mainly due to the decrease in the number of contracts completed and the decrease was partially offset by the increase in the average contract value during the period. The gross profit margin decreased by 1.1 percentage points to 34.3% during the period was mainly due to the decrease in the number of Recycling Plants with higher capacity (usually with higher gross profit margin) sold as compared to the last corresponding period. The increase in the average contract value was mainly due to higher degree of customisation of the Recycling Plants sold during the period.

Revenue from the sales of Conventional Plants increased by 103.2% primarily because of the increase in the number of contracts and offset by the decrease in the average contract value during the period. In order to boost the local economy, the PRC government has accelerated new road construction projects during the period. Therefore, there was an increase in demand of Conventional Plants, which required lesser customisation and shorter time of commissioning. The decrease in the average contract value was mainly because of the relative increase in asphalt mixing plants sold with smaller capacity during the period.

By Geographical Location

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
PRC			
Revenue	**159,619**	116,787	+36.7%
Gross profit	**44,125**	40,473	+9.0%
Gross profit margin	**27.6%**	34.7%	-7.1pp
Number of contracts	**20**	14	+6
Average contract value	**7,981**	8,342	-4.3%
Overseas			
Revenue	**23,335**	20,539	+13.6%
Gross profit	**5,776**	7,116	-18.8%
Gross profit margin	**24.8%**	34.6%	-9.8pp
Number of contracts	**4**	3	1
Average contract value	**5,834**	6,846	-14.8%

Revenue from the PRC sales increased primarily because of the increase in the number of contracts completed and the increase was partially offset by the decrease in the average contract value. The decrease in gross profit margin by 7.1 percentage points to 27.6% during the period was mainly due to the decrease in the number of Recycling Plants with higher capacity (i.e. 4000 model series or above which have higher gross profit margin than lower series) sold during the period. For the same reason, the average contract value decreased compared to last corresponding period.

Revenue from the overseas sales increased mainly because of the increase in the number of contracts. The gross profit margin decreased by 9.8 percentage points to 24.8% was mainly due to all asphalt mixing plants sold during the period were 3000 model series or below which have lower gross profit margin.

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

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue	**17,952**	18,224	-1.5%
Gross profit	**7,133**	6,648	+7.3%
Gross profit margin	**39.7%**	36.5%	+3.2pp

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.

Amount represented revenue from sales of spare parts and components of RMB11,452,000 (2018: RMB10,400,000) and provision of equipment modification services of RMB6,500,000 (2018: RMB7,824,000). Gross profit margin increased by 3.2 percentage points during the period because there was an improvement in gross profit margin of sales of spare parts and components to 44.5% (2018: 32.4%).

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 were generally with the provisions on rental per tonne and minimum production quantity commitment.

Revenue from operating lease of asphalt mixing plants amounted to RMB6,196,000 during the period (2018: RMB8,129,000). The decrease in revenue by 23.8% was primarily because of the decrease in the total volume of productions as compared with the last corresponding period. The decrease in production output by customers was due to the delay in public-private partnership projects in China, resulting in delay in production of certain projects. During the period, the Group recorded a gross loss for its operating lease business of approximately RMB12,704,000 (2018: RMB386,000). The gross loss was mainly because of the decrease in customers' production of asphalt mixtures and hence the revenue could not cover the fixed overheads, including but not limited to staff costs and depreciation, charged during the period. In addition, in view of the continuing loss of the operating lease business, the Group has made an impairment loss of RMB5,870,000 during the period (2018: Nil). As at 30 June 2019, thirteen asphalt mixing plants were held for operating lease business. The Group has disposed four asphalt mixing plants deployed to operating lease business during the period. A loss of disposal of RMB454,000 was recorded in "Other income and other (losses)/gains, net". Management will continue to reduce the number of asphalt mixing plants for operating lease business to an optimum scale this year and to improve the operating lease project quality by strengthening the control of contract review and implementation.

Sales of Bitumen Tanks and Equipment

The Group considered the supply of bitumen, bitumen tanks and equipment as auxiliary services to its customers developing along the "One Belt One Road" countries. For the period ended 30 June 2018, the Group completed two contracts of bitumen tanks and equipment supply to customers in Pakistan with total contract value of approximately RMB7,436,000. No such contracts were signed during the period.

Other Income and Other (Losses)/Gains, Net

During the period, other income and other (losses)/gains, net mainly represented net exchange gains arising from trading transactions and translation of pledged bank deposits and government grants. The decrease was mainly due to the increase in net exchange loss to RMB0.8 million (2018: exchange gain of RMB0.9 million).

Distribution Costs

Distribution costs mainly consisted of staff costs of our sales and marketing staff, distribution fees to our distributors, freight and transportation expenses, and marketing expenses. Distribution costs represented about 21.0% (2018: 16.7%) of revenue for the six months ended 30 June 2019. Increase in distribution costs was mainly due to the increase in sales of asphalt mixing plants through distributors during the period.

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses, legal and professional fees. During the period, administrative expenses increased by approximately RMB4.3 million which was mainly due to the increase in research and development expenses and the increase in share-based payment expenses in relation to the share option granted in June 2018.

Net Reversal of/(Provision for) Impairment Losses on Trade Receivables

The amount represented the net reversal of impairment losses on trade receivables of RMB11.1 million (2018: provision for impairment losses of RMB36.7 million). The reversal of provision for impairment losses was mainly due to the settlement of long overdue trade receivables during the period. Management is expected to continue to receive settlement from long overdue trade receivables and have reversal on the provision for impairment losses.

Share of Profit of Associates

The amount represented the share of the profit of Topp Financial Leasing (Shanghai) Co., Ltd.* ("Shanghai Topp") after the completion of the disposal of equity interests in Shanghai Topp on 25 July 2018 of RMB1,003,000 and share of profit of an associated company, Sichuan RTDL, of RMB172,000. For details of the disposal of equity interest in Shanghai Topp, please refer to the Company's announcement dated 4 May 2018. For details of the establishment of Sichuan RTDL, please refer to the section headed "Establishment of Sichuan RTDL" above.

Finance Income, Net

Finance income, net mainly included bank interest income and interest income on unwinding discounted trade receivables offset by interest expenses on interest-bearing bank borrowings. The income during the period was mainly due to the increase in interest income on unwinding discounted trade receivables to RMB6.5 million (2018: RMB5.0 million).

Income Tax Credit

The income tax credit for the period ended 30 June 2019 was mainly attributable to the deferred tax credit arisen from the unwinding discounted trade receivables and provision of slow moving inventories of a subsidiary of the Company which is a "high-technology enterprise" entitled to a preferential tax rate of 15%.

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company amounted to approximately RMB24.0 million for the period ended 30 June 2019 compared with approximately RMB34.8 million for the period ended 30 June 2018. The loss for the period was mainly due to the decrease in gross profit and increase in distribution costs after the net effect of the reversal of impairment loss of trade receivables as discussed above.

Working Capital Management

Net current assets of the Group amounted to RMB414,934,000 (31 December 2018: RMB426,013,000) with a current ratio of 2.3 times (31 December 2018: 2.6 times) as at 30 June 2019.

Inventories increased by RMB26,704,000 from RMB289,497,000 as at 31 December 2018 to RMB316,201,000 as at 30 June 2019. Inventory turnover days was 324 days for the six months ended 30 June 2019, representing a decrease of 79 days as compared to 403 days for the year ended 31 December 2018. The increase in inventories was mainly due to the increase in raw materials purchased to meet the increase in sales demand. The decrease in inventory turnover days was mainly because of increase in finished goods delivered and accepted by customers during the period.

Trade and bills receivables increased by RMB6,659,000 from RMB233,965,000 as at 31 December 2018 to RMB240,624,000 as at 30 June 2019. Trade and bills receivables turnover days was 207 days for the six months ended 30 June 2019, representing a decrease of 142 days as compared to 349 days for the year ended 31 December 2018. The decrease in trade and bills receivables turnover days during the period was primarily due to (1) the improvement in overall settlement of long overdue trade receivables; (2) the increase in deposits placed by customers during the period; and (3) more timely settlement from PRC customers for the sales contracts entered into during the period. The Group will continue to cautiously monitor the trade receivables collection process so as to improve the collection cycle.

Trade and bills payables decreased by RMB1,638,000 from RMB149,159,000 as at 31 December 2018 to RMB147,521,000 as at 30 June 2019. Trade and bills payables turnover days was 159 days for the six months ended 30 June 2019, representing a decrease of 88 days as compared to 247 days for the year ended 31 December 2018. The decrease in trade and bills payables and turnover days was mainly because of faster payment to suppliers to secure the supply of raw materials.

Liquidity and Financial Resources

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

As at 30 June 2019, the Group had cash and cash equivalents of RMB69,845,000 (31 December 2018: RMB64,407,000) and pledged bank deposits of RMB56,644,000 (31 December 2018: RMB65,015,000). In addition, the Group had interest-bearing bank borrowings of RMB94,871,000 (31 December 2018: RMB60,102,000). 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 borrowings divided by equity attributable to the owners of the Company, amounted to 15.1% (31 December 2018: 8.6%).

During the six months ended 30 June 2019, the Group recorded cash used in operating activities of RMB35,062,000 (six months ended 30 June 2018: cash generated from operating activities RMB10,336,000). Net cash used in investing activities amounted to RMB8,398,000 (six months ended 30 June 2018: RMB8,485,000) for the six months ended 30 June 2019. Net cash generated from financing activities for the six months ended 30 June 2019 amounted to RMB47,639,000 (six months ended 30 June 2018: cash used in financing activities RMB2,037,000).

Capital Commitments and Contingent Liabilities

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

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Contracted for	**2,134**	3,030
Authorised but not contracted for	**–**	–

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 provides 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 30 June 2019, the Group's maximum exposure to such guarantees was approximately RMB65,334,000 (31 December 2018: RMB40,219,000).

Pledge of Assets

As at 30 June 2019, property, plant and equipment of RMB45,549,000 (31 December 2018: RMB46,524,000), land use right of RMB4,900,000 (31 December 2018: RMB4,965,000) and bank deposits of RMB56,644,000 (31 December 2018: RMB65,015,000) were pledged for loans and borrowings and bills payable of the Group.

Foreign Exchange Risk

The reporting currency of the Group was Renminbi. The Group was exposed to foreign exchange risk through sales and purchases which were denominated in a foreign currency including US dollars and Euros. The appreciation or depreciation of Renminbi against these foreign currencies would increase or decrease the price of the Group's products which were sold to overseas market and might bring negative or positive impact on the Group's export sales. On the other hand, the appreciation or depreciation of Renminbi would also decrease or increase the cost of sales of the Group in respect of the purchases of raw materials from overseas. The management has continuously monitored the level of exchange rate exposure and shall adopt financial hedging instruments for hedging purpose when necessary. The Group did not use any financial instruments for hedging purpose for the six months ended 30 June 2019.

Significant Investments and Material Acquisitions or Disposals

During the six months ended 30 June 2019, the Group did not have any significant investments or material acquisitions or disposals.

USE OF PROCEEDS

Net proceeds from the global offering of the Company were approximately HK$334.4 million (equivalent to approximately RMB263.9 million), after deducting the underwriting commissions and other listing expenses. As at 30 June 2019, all the proceeds have been utilised.

	Original allocation *RMB million*	Revised allocation as at 1 March 2017 *RMB million*	Utilised as at 30 June 2019 *RMB million*	Unutilised as at 30 June 2019 *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	52.8	–
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	263.9	–

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group had approximately 445 employees (31 December 2018: 453). The total staff costs for the six months ended 30 June 2019 amounted to approximately RMB40,040,000 (six months ended 30 June 2018: RMB34,626,000).

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

The Company has adopted a share option scheme of the Company pursuant to which employees may be granted options to subscribe for shares of the Company as incentives or rewards for their services rendered to the Group. No option has been granted during the six months ended 30 June 2019. During the six months ended 30 June 2018, the Company granted 5,100,000 share options to its employees and 18,000,000 share options to its Directors.

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2019.

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2019.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the six months ended 30 June 2019, the Company has, in the opinion of the Directors, complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS

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

REVIEW OF INTERIM RESULTS

The Company has an audit committee (the "Audit Committee") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control systems. The Audit Committee comprises four members, namely Mr. O'Yang Wiley (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson. All of them are independent non-executive Directors. The interim results of the Group for the six months ended 30 June 2019 have been reviewed by the Audit Committee.

The Company's auditor, PricewaterhouseCoopers, has also reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2019 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

The 2019 interim report will also be published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.dgtechnology.com and will be despatched to the shareholders of the Company in due course.

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

Hong Kong, 28 August 2019

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

* *For identification purpose only*