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D&G TECHNOLOGY

D&G TECHNOLOGY HOLDING COMPANY LIMITED

STOCK CODE 1301



2019 INTERIM REPORT



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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

Non-Executive Directors

Mr. Chan Lewis
Mr. Alain Vincent Fontaine

Independent Non-Executive Directors

Mr. Law Wang Chak, Waltery (*resigned on 1 May 2019*)
Mr. O'Yang Wiley (*appointed on 1 May 2019*)
Mr. Li Zongjin
Mr. Lee Wai Yat, Paco
Mr. Fok Wai Shun, Wilson

Audit Committee

Mr. Law Wang Chak, Waltery (*Chairman*) (*resigned on 1 May 2019*)
Mr. O'Yang Wiley (*Chairman*) (*appointed on 1 May 2019*)
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 (*resigned on 1 May 2019*)
Mr. O'Yang Wiley (*appointed on 1 May 2019*)

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 (*resigned on 1 May 2019*)
Mr. O'Yang Wiley (*appointed on 1 May 2019*)
Mr. Fok Wai Shun, Wilson
Mr. Tsang Chin Pang

Company Secretary

Mr. Tsang Chin Pang

Authorised Representatives

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

Registered Office

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

Principal Place of Business in Hong Kong

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

Principal Place of Business in the PRC

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

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 54 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

Management Discussion and Analysis

Business Review

General Review

In the first half of 2019, D&G Technology Holding Company Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) continued to be a leading market player in the road construction and maintenance machinery industry, focusing on medium to large-scale asphalt mixing plants. The Group provided one-stop customised solutions to customers in the People’s Republic of China (“**PRC**”, “**China**” or “**Mainland China**”) and overseas markets, specialising in the research and development, design, manufacturing and sale of conventional and recycling asphalt mixing plants.

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

During the six months ended 30 June 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 lease business was achieved.

Management Discussion and Analysis

Management has been cautiously monitoring the collection of trade receivables in order to improve the collection cycle. During the period, management has put extra effort in receivable collection and also tightened its credit controls on client acceptance. 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 has 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 been 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.

* For identification purpose only

Management Discussion and Analysis

Research and Development

To maintain its position as a leading market player in the road construction and maintenance machinery industry focusing on medium to large-scale asphalt mixing plants, the Group continued to maintain its strong research and development capabilities. As at 30 June 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.

Management Discussion and Analysis

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

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 RMB'000	2018 RMB'000	Change
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%

Management Discussion and Analysis

Sales of Asphalt Mixing Plants

	Six months ended 30 June		Change
	2019 RMB'000	2018 RMB'000	
Revenue	182,954	137,326	+33.2%
Gross profit (<i>Note</i>)	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		Change
	2019 RMB'000	2018 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%

Management Discussion and Analysis

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 RMB'000	2018 RMB'000	Change
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.

Management Discussion and Analysis

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

	Six months ended 30 June		Change
	2019 RMB'000	2018 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.

Management Discussion and Analysis

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).

* For identification purpose only

Management Discussion and Analysis

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.

Management Discussion and Analysis

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

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 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.

Management Discussion and Analysis

Foreign Exchange Risk

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

Other Information

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

As at 30 June 2019, the interests or short positions of the directors of the Company (the "Directors"), the chief executives of the Company (the "Chief Executives") and their associates in the shares of the Company (the "Shares"), underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Interests in Shares and underlying shares

Name of Director	Long/Short position	Type of interest	Number of Shares and underlying shares held	Approximate percentage of shareholding in the Company
Mr. Choi Hung Nang	Long	Interest in controlled corporation ⁽¹⁾	345,696,000	55.60%
	Long	Interest of spouse ⁽²⁾	620,000	0.10%
	Long	Beneficial owner	20,850,000	3.35%
	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	2.17%
	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. Chan Lewis	Long	Beneficial owner ⁽⁷⁾	600,000	0.10%
Mr. Alain Vincent Fontaine	Long	Beneficial owner ⁽⁸⁾	300,000	0.05%
Mr. Li Zongjin	Long	Beneficial owner ⁽⁷⁾	600,000	0.10%
Mr. Lee Wai Yat, Paco	Long	Beneficial owner	300,000	0.05%
	Long	Beneficial owner ⁽⁹⁾	300,000	0.05%
Mr. Fok Wai Shun, Wilson	Long	Beneficial owner ⁽¹⁰⁾	800,000	0.13%

Other Information

(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:

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- Each of Mr. Chan Lewis and Mr. Li Zongjin 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.
- 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.
- 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. 300,000 share options were exercised during the period ended 30 June 2019. He was deemed to be interested in 300,000 underlying shares in respect of the share options granted during the year ended 31 December 2018.
- 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.

Save as disclosed above, as at 30 June 2019, none of the Directors, the Chief Executives nor their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

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

As at 30 June 2019, 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	55.60%
Mr. Choi Hung Nang ¹	Long	Interest in controlled corporation	345,696,000	55.60%
	Long	Interest of spouse	620,000	0.10%
	Long	Beneficial owner	20,850,000	3.35%
	Long	Beneficial owner	8,000,000	1.29%
Ms. Tin Suen Chu ¹	Long	Interest of spouse	374,546,000	60.23%
	Long	Beneficial owner	620,000	0.10%
Regal Sky Holdings Limited ²	Long	Beneficial owner	49,824,000	8.01%
Ocean Equity Partners Fund L.P. ²	Long	Interest in controlled corporation	49,824,000	8.01%
Ocean Equity Partners Fund GP Limited ²	Long	Interest in controlled corporation	49,824,000	8.01%

Notes:

- 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.

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

Save as disclosed above, as at 30 June 2019, 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.

Other Information

The board of Directors (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 9.65% of the issued Shares as at the date of this interim report. Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other schemes of the Group) will not be counted for the purpose of calculating the Limit. Subject to the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Company may refresh the Limit at any time provided that: (i) the Limit as refreshed does not exceed 10% of the Shares in issue as at the date of the approval by the refreshed Limit; (ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Limit as refreshed; and (iii) a circular containing the information and the disclaimer, respectively required under Rule 17.02(2)(d) and Rule 17.02(4) of the Listing Rules shall be despatched to the shareholders together with the notice of the relevant general meeting. Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme at any time shall not exceed 30% of the Shares in issue from time to time.

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

On 20 April 2016 and 5 June 2018 (the “**Dates of Grant**”), options to subscribe for an aggregate of 24,700,000 Shares and 23,100,000 Shares were granted respectively to certain Eligible Participants under the Share Option Scheme. The exercise price in respect of each option granted under the Share Option Scheme on 20 April 2016 and 5 June 2018 is HK\$0.88 and HK\$1.12 per Share respectively. The adjusted closing price of the Shares immediately before the Dates of Grant was HK\$0.866 and HK\$1.120 per Share respectively. There was no Eligible Participant with options granted in excess of the individual limit.

During the six months ended 30 June 2019, out of the above share options granted, none was cancelled while 1,570,000 share options exercised and 2,100,000 share options lapsed.

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

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

Other Information

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

Particulars and movements of share options granted under the Share Option Scheme for the period ended 30 June 2019 were as follows:

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2019	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2019
Directors								
Mr. Choi Hung Nang	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	1,400,000	-	-	-	1,400,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
Ms. Choi Kwan Li, Glendy	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	1,400,000	-	-	-	1,400,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
Mr. Choi Hon Ting, Derek	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	1,300,000	-	-	-	1,300,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	1,400,000	-	-	-	1,400,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
Mr. Liu Tom Jing-zhi	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	650,000	-	-	-	650,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	650,000	-	-	-	650,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	700,000	-	-	-	700,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
Mr. Lao Kam Chi	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	650,000	-	-	-	650,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	650,000	-	-	-	650,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	700,000	-	-	-	700,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
Mr. Yu Ronghua (passed away on 13 January 2018)	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)	-
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 (resigned on 1 May 2019)	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

Other Information

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2019	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2019
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
				36,870,000	-	(570,000)	(1,700,000)	34,600,000
Other employees								
In aggregate	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	600,000	-	(200,000)	-	400,000
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	800,000	-	(400,000)	-	400,000
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	800,000	-	(400,000)	-	400,000
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,550,000	-	-	(200,000)	2,350,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,550,000	-	-	(200,000)	2,350,000
				7,300,000	-	(1,000,000)	(400,000)	5,900,000
				44,170,000	-	(1,570,000)	(2,100,000)	40,500,000

Note: The weighted average closing price immediately before the exercise of the share options was HK\$1.23.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this interim report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the six months ended 30 June 2019.

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 the Share Option Scheme pursuant to which employees may be granted options to subscribe for Shares 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.

Other Information

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 Listing Rules.

Model Code for Securities Transactions

The Company has adopted 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. Mr. Law Wang Chak, Waltery ceased to be the chairman of the Audit Committee and Mr. O'Yang Wiley was appointed as the chairman of the Audit Committee with effect from 1 May 2019. 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.

Change of Directors' Information

Mr. Alain Vincent Fontaine has renewed his service agreement with the Company for a further period of three years commencing from 15 August 2019. The emolument of Mr. Fontaine is HK\$16,000 per month effective from 1 April 2019 and other terms and conditions of his service agreement remained the same.

Mr. O'Yang Wiley has been appointed as 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), with effect from 11 June 2019.

Report on Review of Interim Financial Information



TO THE BOARD OF DIRECTORS OF D&G TECHNOLOGY HOLDING COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 22 to 44 which comprises the interim condensed consolidated statement of financial position of D&G Technology Holding Company Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) as at 30 June 2019 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 August 2019

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

	Note	Unaudited Six months ended 30 June	
		2019 RMB'000	2018 RMB'000
Revenue	7	207,102	173,043
Cost of sales		(169,369)	(113,787)
Gross profit		37,733	59,256
Other income and other (losses)/gains, net	8	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)
Operating loss	9	(32,564)	(39,078)
Finance income, net		4,853	4,000
Share of profits of associates	14	1,175	–
Loss before income tax		(26,536)	(35,078)
Income tax credit	10	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)	11(a)	(3.87)	(5.61)
– diluted (RMB cents)	11(b)	(3.87)	(5.61)

The above interim condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

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		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	(1,498)	(168)
Total comprehensive loss attributable to owners of the Company for the period	(25,526)	(34,994)

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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	12	168,121	189,497
Land use right	12	–	4,965
Intangible assets	12	2,487	2,911
Right-of-use assets	13	6,370	–
Interests in associates	14	54,147	51,972
Amount due from an associate	22(b)	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	15	240,624	233,965
Prepayments, deposits and other receivables		36,883	36,629
Amount due from an associate	22(b)	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
EQUITY			
Share capital	18	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	16	3,082	–
Lease liabilities		232	–
		3,314	–

The above interim condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	<i>Note</i>	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Current liabilities			
Borrowings	16	99,213	60,102
Contract liabilities	17	36,523	29,809
Lease liabilities		1,385	–
Trade and other payables	17	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

The above interim condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Unaudited							
	Attributable to owners of the Company							
	Share capital	Share premium	Capital reserve	Statutory reserve	Exchange reserve	Share options reserve	Retained earnings	Total equity
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 18(a)	Note 18(b)						
Unaudited:								
Balance at 1 January 2018	4,897	419,617	65,290	43,963	24,348	5,873	176,828	740,816
Changes in accounting policies in respect of HKFRS 9 and 15	-	-	-	-	-	-	(2,193)	(2,193)
Balance at 1 January 2018, restated	4,897	419,617	65,290	43,963	24,348	5,873	174,635	738,623
Comprehensive loss								
– Loss for the period	-	-	-	-	-	-	(34,826)	(34,826)
Other comprehensive loss								
– Currency translation differences	-	-	-	-	(168)	-	-	(168)
Total comprehensive loss	-	-	-	-	(168)	-	(34,826)	(34,994)
Employee share option scheme								
– grant of share options	-	-	-	-	-	720	-	720
Balance at 30 June 2018	4,897	419,617	65,290	43,963	24,180	6,593	139,809	704,349
Unaudited:								
Balance at 1 January 2019	4,897	419,617	65,290	44,395	27,770	9,404	125,791	697,164
Changes in accounting policies in respect of HKFRS 16 (Note 4(a))	-	-	-	-	-	-	(201)	(201)
Balance at 1 January 2019, restated	4,897	419,617	65,290	44,395	27,770	9,404	125,590	696,963
Comprehensive loss								
– Loss for the period	-	-	-	-	-	-	(24,028)	(24,028)
Other comprehensive loss								
– Currency translation differences	-	-	-	-	(1,498)	-	-	(1,498)
Total comprehensive loss	-	-	-	-	(1,498)	-	(24,028)	(25,526)
Employee share option scheme								
– exercise of share options	13	1,170	-	-	-	-	-	1,183
– value of employee services	-	-	-	-	-	2,614	-	2,614
Balance at 30 June 2019	4,910	420,787	65,290	44,395	26,272	12,018	101,562	675,234

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Cash flows from operating activities		
Cash (used in)/generated from operations	(35,038)	14,969
Income tax paid	(24)	(4,633)
Net cash (used in)/generated from operating activities	(35,062)	10,336
Cash flows from investing activities		
Payment for acquisition of property, plant and equipment	(12,579)	(8,688)
Proceeds from disposal of property, plant and equipment	4,405	–
Capital injection to an associate	(1,000)	–
Interest income	776	203
Net cash used in investing activities	(8,398)	(8,485)
Cash flows from financing activities		
Repayments of borrowings	(25,148)	(6,454)
Proceeds from borrowings	66,617	7,660
Principal payment of lease liabilities	(864)	–
Interest paid of lease liabilities	(43)	–
Interest expenses paid	(2,426)	(1,199)
Releases/(additions) of bank deposits pledged for bank borrowings	8,320	(2,044)
Proceeds from issue of ordinary shares by exercise of share options	1,183	–
Net cash generated from/(used in) financing activities	47,639	(2,037)
Net increase/(decrease) in cash and cash equivalents	4,179	(186)
Cash and cash equivalents at beginning of the period	64,407	42,708
Effect of foreign exchange rate changes	1,259	(315)
Cash and cash equivalents at end of the period	69,845	42,207

Major non-cash transactions:

During the period ended 30 June 2019, the Group disposed of certain leased machineries to an associate of the Group and two independent third parties at a consideration of approximately RMB17,886,000. The outstanding balances resulted from these disposals shall be settled by installments.

Notes to the Condensed Consolidated Interim Financial Information

1 General information

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

Notes to the Condensed Consolidated Interim Financial Information

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 a 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%.

Notes to the Condensed Consolidated Interim Financial Information

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

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.

Notes to the Condensed Consolidated Interim Financial Information

4 Changes in accounting policies (Continued)

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

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.

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.

Notes to the Condensed Consolidated Interim Financial Information

4 Changes in accounting policies (Continued)

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

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 Estimates

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

Notes to the Condensed Consolidated Interim Financial Information

6 Financial risk management

(a) Financial risk factors

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

There have been no changes in the risk management policies since 31 December 2018.

(b) Fair value estimation

Disclosures of the investment property measured are at fair value. The carrying amounts of the Company's financial assets and liabilities with a maturity of less than one year, including trade and bills receivable, deposits and other receivables, cash and cash equivalents, pledged bank deposits, amount due from an associate, trade and bills payable, other payables, lease liabilities and borrowings approximate their fair values.

7 Segment information

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

Notes to the Condensed Consolidated Interim Financial Information

7 Segment information (Continued)

(a) Revenue by selling location

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

(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	Audited
	At 30 June 2019 RMB'000	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.

Notes to the Condensed Consolidated Interim Financial Information

8 Other income and other (losses)/gains, net

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Other income		
Government grants <i>(Note)</i>	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.

9 Operating loss

Operating loss is stated after charging the following:

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 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 <i>(Note 12)</i>	5,682	7,694
– Right-of-use assets <i>(Note 13)</i>	832	–
– Other assets <i>(Note 12)</i>	4,257	2,983
Amortisation <i>(Note 12)</i>		
– 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 <i>(Note 12)</i>	5,870	–

Notes to the Condensed Consolidated Interim Financial Information

10 Income tax credit

	Unaudited	
	Six months ended 30 June	
	2019 RMB'000	2018 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

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.

11 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.

Notes to the Condensed Consolidated Interim Financial Information

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

	Property, plant and equipment RMB'000	Land use right RMB'000	Investment property RMB'000	Intangible assets RMB'000
Unaudited:				
Six months ended 30 June 2019				
Net book value				
At 31 December 2018 – HKAS 17	189,497	4,965	–	2,911
Effect of adoption of HKFRS 16 (Note 4(a))	–	(4,965)	–	–
Net book value				
At 1 January 2019 – HKFRS 16, restated	189,497	–	–	2,911
Additions	12,579	–	–	–
Disposals	(18,087)	–	–	–
Amortisation (Note 9)	–	–	–	(424)
Depreciation (Note 9)	(9,939)	–	–	–
Impairment (Note 9)	(5,870)	–	–	–
Exchange difference	(59)	–	–	–
At 30 June 2019	168,121	–	–	2,487
Unaudited:				
Six months ended 30 June 2018				
Net book value				
At 1 January 2018	161,827	5,095	12,077	3,788
Additions	10,091	–	–	–
Amortisation (Note 9)	–	(65)	–	(454)
Depreciation (Note 9)	(10,677)	–	–	–
Exchange difference	527	–	159	1
At 30 June 2018	161,768	5,030	12,236	3,335

Notes to the Condensed Consolidated Interim Financial Information

13 Right-of-use assets

	Land use right RMB'000	Office premises RMB'000	Total RMB'000
Unaudited:			
Six months ended 30 June 2019			
Net book value			
At 31 December 2018 – HKAS 17	–	–	–
Effect of adoption of HKFRS 16 (Note 4(a))	4,965	2,070	7,035
At 1 January 2019 – HKFRS 16, restated	4,965	2,070	7,035
Addition	–	167	167
Depreciation (Note 9)	(65)	(767)	(832)
At 30 June 2019	4,900	1,470	6,370

14 Interests in associates

The movement of the investments in associates during the period is as follows:

	Unaudited	
	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
At 1 January	51,972	–
Addition (Note)	1,000	–
Share of profit	1,175	–
At 30 June	54,147	–

Note:

The Group injected capital of RMB1,000,000 into a newly established company Sichuan Rui Tong De Long New Materials Technology Company (“**Sichuan RTDL**”) (四川瑞通德隆新材料科技有限公司) on 19 June 2019. Sichuan RTDL is principally engaged in sales and leasing of asphalt mixing plants. As at 30 June 2019, Sichuan RTDL was held as to approximately 40% by the Group.

Notes to the Condensed Consolidated Interim Financial Information

15 Trade and bills receivable

	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 years 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.

Notes to the Condensed Consolidated Interim Financial Information

16 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 At 30 June 2019 RMB'000	Audited At 31 December 2018 RMB'000	Unaudited At 30 June 2019 RMB'000	Audited At 31 December 2018 RMB'000	Unaudited At 30 June 2019 RMB'000	Audited At 31 December 2018 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 collateralised 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
	RMB'000
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

Notes to the Condensed Consolidated Interim Financial Information

17 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 a related party	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 payable 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

Notes to the Condensed Consolidated Interim Financial Information

18 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 (<i>Note</i>)	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.

Notes to the Condensed Consolidated Interim Financial Information

19 Interim dividend

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

20 Commitments

Capital commitments

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

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

21 Contingent liabilities

Financial guarantee issued

Certain customers of Langfang D&G, a subsidiary of the Group, financed their purchase of the Group's plants through finance leases provided by third-party leasing companies and Topp Financial Leasing (Shanghai) Co., Ltd. ("**Shanghai Topp**"). Under the leasing arrangement, 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 right 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).

Notes to the Condensed Consolidated Interim Financial Information

22 Related party transactions and balances

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

(a) Transactions with related parties

	Unaudited	
	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Finance lease income from related parties:		
(i) Entity jointly controlled by Choi Family and an independent third party	–	41
(ii) Interest income from an associate	139	–
	139	41

In addition, the Group disposed of certain leased machinery to an associate of the Group at a consideration of RMB11,208,000, a gain on disposal of RMB380,000 was recognised and included in "other losses/gain, net" for the period ended 30 June 2019.

(b) Year end balances

	Note	Unaudited At 30 June 2019 RMB'000	Audited At 31 December 2018 RMB'000
		Amount due from an associate	(i)
Included in other payables:			
Amounts due to a related party			
– Entity controlled by Choi Family	(ii)	350	338

Notes:

- (i) As at 30 June 2019, amount due from an associate represented receivables in respect of disposal of machineries to an associate. The balance was interest bearing at 4.5% per annum, unsecured. The balance shall be settled by monthly installments before March 2022.
- (ii) As at 30 June 2019 and 31 December 2018, the amounts due to related parties were unsecured, interest free and repayable on demand.