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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1301)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board of directors (the "Board" or the "Directors") of D&G Technology Holding Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2022 together with the comparative figures for the same period of last year, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

		Unaudited	
		Six months ended 30 June	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**193,779**	197,078
Cost of sales		**(136,896)**	(130,989)
Gross profit		**56,883**	66,089
Other income and other gains, net	*6*	**2,678**	2,931
Distribution costs		**(45,189)**	(38,578)
Administrative expenses		**(28,777)**	(33,489)
Net reversal of impairment losses on financial assets		**4,948**	5,331

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2022

		Unaudited	
		Six months ended 30 June	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Operating (loss)/profit	*7*	**(9,457)**	2,284
Finance income, net		**7,234**	7,202
Share of profit of an associate		**861**	958
Share of profit of a joint venture		**–**	465
(Loss)/profit before income tax		**(1,362)**	10,909
Income tax expense	*8*	**(1,147)**	(2,681)
(Loss)/profit for the period attributable to owners of the Company		**(2,509)**	8,228
(Loss)/earnings per share attributable to owners of the Company during the period			
– Basic (RMB cents)	*9(a)*	**(0.39)**	1.31
– Diluted (RMB cents)	*9(b)*	**(0.39)**	1.27

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
(Loss)/profit for the period	**(2,509)**	8,228
Other comprehensive income/(loss) for the period, net of tax		
Items that may be reclassified to profit or loss		
Currency translation differences	**2,975**	(999)
Total comprehensive income attributable to owners of the Company for the period	**466**	7,229

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Note	**Unaudited 30 June 2022** *RMB'000*	Audited 31 December 2021 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**111,787**	111,040
Intangible assets		**2,189**	2,639
Investment in an associate		**59,741**	58,880
Financial asset at fair value through profit or loss		**19,255**	18,363
Deferred tax assets		**9,618**	10,703
Total non-current assets		**202,590**	201,625
Current assets			
Inventories		**231,096**	220,512
Trade and bills receivables	*10*	**224,540**	196,364
Amount due from a joint venture		**737**	1,787
Prepayments, deposits and other receivables		**41,516**	44,271
Pledged bank deposits		**41,589**	50,029
Cash and cash equivalents		**182,508**	199,644
Total current assets		**721,986**	712,607
Non-current assets classified as assets held for sale		**1,844**	5,397
Total assets		**926,420**	919,629

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2022

	Note	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
EQUITY			
Share capital	*13*	**5,059**	5,059
Other reserves		**575,822**	579,015
Retained earnings		**80,220**	83,116
Total equity		**661,101**	667,190
LIABILITIES			
Non-current liabilities			
Lease liabilities		**1,699**	1,583
Deferred tax liabilities		**4,500**	4,500
Total non-current liabilities		**6,199**	6,083
Current liabilities			
Borrowings	*11*	**11,552**	19,623
Trade and other payables	*12*	**178,739**	167,659
Contract liabilities	*12*	**66,431**	57,500
Lease liabilities		**1,263**	785
Income tax payable		**1,135**	789
Total current liabilities		**259,120**	246,356
Total liabilities		**265,319**	252,439
Total equity and liabilities		**926,420**	919,629

NOTES

1 GENERAL INFORMATION

The Group is principally engaged in manufacturing, distribution, research and development and sales of spare parts and modified equipment.

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 were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 May 2015.

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 2022 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2021, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The adoption of the following new standards, amendments to existing standard and interpretation are mandatory for the Group's financial year beginning on 1 January 2022.

Standards	**Subject**
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contract – Cost Fulfilling a Contract
Annual Improvements Projects	Annual Improvements to HKFRSs 2018-2020 (Amendments)
Accounting Guideline 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations

The adoption of the amendments listed above did not have material impact on the Group's accounting policies and financial statements.

3 ACCOUNTING POLICIES (CONTINUED)

(b) New standards, amendments to standards and interpretations not yet adopted and revised HKFRSs issued but not yet effective

Certain new and amended standards have been issued but are not yet effective for the financial year beginning on 1 January 2022 and have not been early adopted by the Group:

Standards	Subject	Effective for Annual Periods Beginning on or After
HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
HK Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Management is in the process of assessing the financial impact of the above new and amended standards but is not yet in a position to state whether they will result in substantial changes to the Group's significant accounting policies and the presentation of its financial statements.

4 ESTIMATES

The preparation of the condensed consolidated 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 of the Group for the year ended 31 December 2021.

5 SEGMENT INFORMATION

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

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

Revenue consists of the following:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of asphalt mixing plants	**175,204**	180,559
Sales of spare parts and modified equipment	**18,575**	14,312
	193,779	194,871
Revenue from other sources		
Operating lease income of asphalt mixing plants	**–**	2,207
	193,779	197,078
Revenue from contracts with customers recognised		
– at a point in time	**193,779**	194,871
– over time	**–**	2,207

(a) Revenue from external customers by country

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
People's Republic of China (the "PRC")	**185,708**	185,641
Outside the PRC	**8,071**	11,437
	193,779	197,078

5 SEGMENT INFORMATION (CONTINUED)

(b) Non-current assets

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

	Unaudited At 30 June 2022	Audited At 31 December 2021
	RMB'000	*RMB'000*
The PRC	**143,633**	144,166
Outside the PRC	**49,339**	46,756
	192,972	190,922

(c) Information about major customer

No customer with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2022 and 2021.

6 OTHER INCOME AND OTHER GAINS, NET

	Unaudited Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Other income		
Government grants *(Note)*	**509**	133
Others	**16**	92
	525	225
Other gains, net		
Fair value gain on a financial asset at fair value through profit or loss	**892**	–
Interest income from a financial asset at fair value through profit or loss	**566**	566
Net gain on disposal of non-current asset classified as asset held for sale	**1,049**	–
Net gain on disposal of property, plant and equipment	**–**	1,594
Net foreign exchange (loss)/gain	**(696)**	124
Others	**342**	422
	2,153	2,706
	2,678	2,931

Note:

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

7 OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after (crediting)/charging the following:

	Unaudited Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Cost of inventories	**118,680**	128,518
Employee benefit expenses	**30,712**	35,104
Depreciation and amortisation		
– Property, plant and equipment used for operating leases	**–**	841
– Property, plant and equipment	**4,266**	4,249
– Intangible assets	**505**	543
Net reversal of impairment losses of trade receivables	**(4,948)**	(5,221)
Net reversal of impairment losses of other receivables	**–**	(110)
Provision for impairment of inventories	**6,010**	128

8 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**683**	1,456
– Withholding tax	**–**	1,296
– Over-provision in prior period	**(621)**	(792)
Deferred income tax	**1,085**	721
	1,147	2,681

No provision for Hong Kong profits tax was made for the current period (2021: 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% (2021: 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 and new technology enterprise" under the tax law and entitled to a preferential income tax rate of 15% (2021: 15%).

Under the PRC enterprise income tax law and its relevant regulations, a 100% (2021: 75%) additional tax deduction is allowed for qualified research and development expenses.

9 (LOSS)/EARNINGS PER SHARE

(a) Basic

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

The calculations of the basic (loss)/earnings per share are as follows:

	Unaudited Six months ended 30 June	
	2022	2021
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(2,509)**	8,228
Weighted average number of ordinary shares in issue	**639,408,000**	629,671,000
Basic (loss)/earnings per share *(expressed in RMB cents per share)*	**(0.39)**	1.31

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares arise from the share options, for which calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 30 June	
	2022	2021
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(2,509)**	8,228
Weighted average number of ordinary shares in issue	**639,408,000**	629,671,000
Adjustment for share options *(Note)*	**–**	17,968,000
Weighted average number of ordinary shares for diluted (loss)/earnings per share	**639,408,000**	647,639,000
Diluted (loss)/earnings per share *(expressed in RMB cents per share)*	**(0.39)**	1.27

Note:

Diluted loss per share for the six months ended 30 June 2022 was the same as the basic loss per share as potential ordinary shares arising from share options were anti-dilutive.

10 TRADE AND BILLS RECEIVABLES

	Unaudited At 30 June 2022	Audited At 31 December 2021
	RMB'000	*RMB'000*
Trade receivables from third parties	**275,683**	253,179
Loss allowance	**(48,971)**	(53,919)
Discounting impact	**(9,170)**	(9,967)
	217,542	189,293
Bills receivables	**6,998**	7,071
Total trade and bills receivables	**224,540**	196,364

(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 Group's customers.

(b) The ageing analysis of the trade receivables as at the end of the reporting period based on the date of revenue recognition (mutually known as by invoice date) is as follows:

	Unaudited At 30 June 2022	Audited At 31 December 2021
	RMB'000	*RMB'000*
Within 1 year	**154,044**	131,649
1 to 2 years	**73,474**	70,091
2 to 3 years	**9,503**	7,892
Over 3 years	**38,662**	43,547
	275,683	253,179

11 BORROWINGS

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

	Secured bank loans	
	Unaudited	Audited
	At	At
	30 June	31 December
	2022	2021
	RMB'000	*RMB'000*
Within 1 year	**11,552**	19,623

As at 30 June 2022, borrowings of RMB11,552,000 (31 December 2021: RMB11,822,000) were secured by pledged bank deposits of RMB23,479,000 (31 December 2021: RMB22,273,000) and property, plant and equipment of RMB34,890,000 (31 December 2021: RMB33,403,000).

No borrowing was secured by bills receivables as at 30 June 2022. As at 31 December 2021, borrowings of RMB4,399,000 were secured by bills receivables of RMB4,399,000. The remaining borrowings of RMB3,402,000 were secured by the corporate guarantee provided by the Company.

Movements of borrowings are analysed as follows:

	RMB'000
Unaudited:	
Balance at 1 January 2022	**19,623**
Repayments of borrowings	**(8,587)**
Exchange difference	**516**
Balance at 30 June 2022	**11,552**

	RMB'000
Unaudited:	
Balance at 1 January 2021	31,145
Repayments of borrowings	(7,424)
Proceeds from borrowings	4,399
Exchange difference	(316)
Balance at 30 June 2021	27,804

12 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	Unaudited At 30 June 2022 *RMB'000*	Audited At 31 December 2021 *RMB'000*
Trade payables	**69,881**	39,935
Bills payables *(Note)*	**60,385**	93,769
	130,266	133,704
Amount due to a related party	**295**	295
Other payables and accruals	**48,178**	33,660
	48,473	33,955
Total trade and other payables	**178,739**	167,659
Contract liabilities	**66,431**	57,500
	245,170	225,159

Note:

The Group's bills payables of RMB60,365,000 (31 December 2021: RMB92,517,000) were secured by the Group's pledged bank deposits of approximately RMB18,110,000 (31 December 2021: RMB27,756,000), property, plant and equipment of RMB6,391,000 (31 December 2021: RMB6,834,000) and land use right of RMB4,508,000 (31 December 2021: RMB4,573,000).

The ageing analysis of trade and bills payables as at the end of the reporting period based on invoice date is as follows:

	Unaudited At 30 June 2022 *RMB'000*	Audited At 31 December 2021 *RMB'000*
Within 3 months	**86,387**	66,144
After 3 months but within 6 months	**27,673**	42,297
After 6 months but within 1 year	**14,161**	23,339
Over 1 year	**2,045**	1,924
	130,266	133,704

13 SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

Authorised:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares
		HK$
At 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	2,000,000,000	20,000,000

Issued and fully paid:

	No. of shares		
	('000)	*HK$'000*	*RMB'000*
At 1 January 2021	621,958	6,220	4,912
Exercise of share option *(Note)*	17,450	175	147
At 30 June 2021, 1 January 2022 and 30 June 2022	639,408	6,395	5,059

Note: Proceeds from the exercise of share options amounted to approximately RMB12,937,000 for the six months ended 30 June 2021.

(b) Share premium

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

14 DIVIDENDS

No interim dividend was proposed by the Board for the six months ended 30 June 2022 and 2021.

A final dividend in respect of the year ended 31 December 2021 of HK$1.20 cents per ordinary share, amounting to a total dividend of approximately RMB6,555,000, was paid during the period ended 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

General Review

In the first half of 2022, 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 2022, the Group continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were seventeen (2021: twenty) 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 Mingchao Expressway (明巢高速), Nanheng Highway (南横高速公路), etc. Revenue from sales of asphalt mixing plants decreased by approximately 3.0% during the period, whereas, the sales of asphalt mixing plants accounted for approximately 90.4% (2021: 91.6%) of the total revenue of the Group. Such decrease was mainly attributable to the resurgence of Coronavirus Disease 2019 ("COVID-19") that led to the Chinese government's implementation of travel restrictions and lockdowns in the major cities of China since March 2022, which had affected the Group's business activities and deliveries. Although transportation restrictions in China have been gradually lifted in June 2022, there were still some delays in customers' acknowledgements of implementation of our asphalt mixing plants, resulting in the Group not being able to recognise the revenue of certain contracts in the first half of 2022. The Group's gross profit decrease to RMB56,883,000 (2021: RMB66,089,000) which was mainly attributable to the decrease in sales of asphalt mixing plants and the increase in provision for impairment of inventories amounted to RMB6,010,000 (2021: RMB128,000).

The increase in provision for impairment of inventories during the period was mainly due to the slow moving of raw materials and work in progress as a result of COVID-19 and postponement of customers' project delivery schedules. Moreover, the impact of the COVID-19 in China is hard to be determined, based on the principle of prudence, the Group has made additional provision for impairment of inventories.

Management has been cautiously monitoring the collection of trade receivables in order to improve the cash cycle. During the period, management continued to put effort in receivable collection and tighten its credit controls on new and existing customers. 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. The overall settlement from customers has also improved. The Group therefore made a reversal of provision for impairment loss of trade receivables of approximately RMB4,948,000 during the period (2021: RMB5,221,000). Nevertheless, the Group shall strictly adhere to its credit policy and continuously strengthen its internal control procedures so as to improve the receivable collection cycle and shorten the debtors' turnover days.

The Group has been expanding its business and entering into potential markets along the "Belt and Road" countries. Out of the seventeen sales contracts of asphalt mixing plants completed during the period, one was completed in an overseas country, Peru. Although the overseas road construction projects along the "Belt and Road" countries slowed down during the period, the Group has entered into two sales contracts with a customer in Russia, which are expected to be completed in the second half of the year. To further penetrate the markets in the developing countries, the Group has also developed a compact mobile asphalt plants series in product line. The outbreak of COVID-19 casted uncertainties in the overseas market, however, with the established overseas network, the Group expects the road construction projects along the "Belt and Road" countries to resume once the COVID-19 situation is under control.

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 seeking potential strategic partners to develop the production and sale of asphalt mixtures business.

Sichuan Rui Tong De Long New Materials Technology Limited ("Sichuan RTDL")*

On 30 May 2021, Langfang De Feng New Materials Technology Limited* ("Langfang De Feng") entered into a share transfer agreement with Sichuan Xin De Yuan Trading Limited* ("Sichuan Xin De Yuan") to transfer 50% of equity interest in Sichuan RTDL to its joint venture partner for a consideration of approximately RMB2.4 million. The share transfer will be completed once the debt between Sichuan RTDL and the Group's wholly owned subsidiary has been settled.

Upon the completion of the share transfer, Sichuan RTDL will be 100% owned by Sichuan Xin De Yuan and Langfang De Feng will have no interest in Sichuan RTDL and thus Sichuan RTDL will no longer be a joint venture of the Group.

The Group's management had reassessed the business development potential of Sichuan RTDL and considered that the share transfer offered an opportunity for the Group to realise its investment with profit and provided funds to cater for other new suitable investment opportunities with more growth potential in the development of production and sales of asphalt mixture plant business.

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 2022, forty (31 December 2021: forty) patents of combustion technology were registered, one patent was pending registration.

Investment in a convertible bond (the "Convertible Bond")

On 10 August 2020, the Group's wholly owned subsidiary, Langfang D&G (as the lender), has entered into a convertible bond agreement with Zhejiang Zhengfang Asphalt Concrete Technology Limited* (the "Zhengfang ACT") (as the borrower). It is a wholly owned subsidiary of Zhejiang Zhengfang Holding Limited, as a guarantor in the convertible bond agreement, a road construction company in Zhejiang, China which is an existing customer of Langfang D&G.

* *For identification purpose only*

The principal amount of the Convertible Bond is in a total amount of RMB20 million. The Convertible Bond is interest bearing at 6% per annum and the maturity date is 30 April 2024.

During the tenure of the Convertible Bond, the Zhengfang ACT shall purchase no less than five sets of asphalt mixing plants from Langfang D&G. As at 30 June 2022, two asphalt mixing plants sales contracts have been completed.

Pursuant to the convertible bond agreement, at 30 April 2024, Langfang D&G has the right to exercise its equity conversion option at the conversion ratio of the higher of (i) 1.5 times of the net assets of the Zhengfang ACT as at 31 December 2023 or (ii) 6 times of the weighted average of its net profits for the years ended 31 December 2022 and 2023, both of which are calculated with reference to its audited accounts prepared in accordance with the PRC generally accepted accounting principles.

Partnership with LiuGong Wuxi Road Equipment Co., Ltd. (“LiuGong Road Equipment”)*

In May 2021, the Group has entered into an agreement with LiuGong Road Equipment to become the exclusive supplier of asphalt mixing plant for LiuGong Road Equipment. The Group will research and develop, design and manufacture products under the label of “LiuGong”, by leveraging its technical strength, as well as LiuGong’s well-established distribution network and strong financial services capabilities, to sell the products to domestic and overseas markets. The Group expects this strategic partnership will further penetrate the mid-end asphalt mixing plant market to win more orders and expand its revenue stream. Furthermore, the collaboration enables LiuGong Road Equipment to enrich and improve its one-stop road construction equipment solution to achieve a win-win situation.

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 2022, the Group had one hundred and eighty-four registered patents in the PRC (of which four were invention patents and four appearance patents) and twenty-seven software copyrights. In addition, the registration of twenty-two patents were pending approval as at 30 June 2022.

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.

* *For identification purpose only*

During the period, the Group participated in various promotional events, technical seminars and corporate social responsibility events such as the DG customers technical training in Nanchang, the Bauma CTT Russia 2022 held in Russia, the World Environment Day and the Green Day 2022.

In March 2022, the Group was awarded the "5 Years Plus Caring Company" which was organised by the Hong Kong Council of Social Service. In August 2022, the Group was awarded as an "EcoChallenger" and "5 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.

Outlook

Looking ahead, the outlook for the business environment and global economies are still uncertain. The challenges arising from the continuing US-China trade conflict, widespread of COVID-19 new variants, Russia-Ukraine war and elevated inflation concerns. The economic sanctions against Russian military actions imposed by the United States (the "US") and the European Union led to suspension of business relationship between the Western countries and Russia, however, offer an opportunity for Chinese corporations to extend the market share in Russia and maintain long-term relationship with Russian corporations.

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 continue 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.

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

With the 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 the ASEAN region. To utilise the Group's wide clientele base of over 600 asphalt plants spreading across the PRC and 35 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 conditions.

FINANCIAL REVIEW

During the six months ended 30 June 2022, the Group recorded a total revenue of RMB193,779,000 (2021: RMB197,078,000), representing a decrease of approximately 1.7% as compared to the last corresponding period. Gross profit decreased from RMB66,089,000 for the six months ended 30 June 2021 to RMB56,883,000 for the six months ended 30 June 2022, representing a decrease of approximately 13.9%. Gross profit margin decreased by 4.1 percentage points from 33.5% to 29.4%. The Group recorded a net loss attributable to owners of the Company of RMB2,509,000 compared with a net profit of RMB8,228,000 in the last corresponding period.

	Six months ended 30 June		
	2022	2021	Change
	RMB'000	*RMB'000*	
Sales of asphalt mixing plants	**175,204**	180,559	-3.0%
Sales of spare parts and modified equipment	**18,575**	14,312	29.8%
Operating lease income of asphalt mixing plants	**–**	2,207	-100%
	193,779	197,078	-1.7%

Sales of Asphalt Mixing Plants

	Six months ended 30 June		
	2022	2021	Change
	RMB'000	*RMB'000*	
Revenue	**175,204**	180,559	-3.0%
Gross profit *(Note)*	**55,572**	61,017	-8.9%
Gross profit margin	**31.7%**	33.8%	-2.1pp
Number of contracts	**17**	20	-3
Average contract value	**10,306**	9,028	14.2%

Revenue from the sales of asphalt mixing plants decreased as a result of the decrease in number of contracts completed and partially offset by increase in the average contract value. The decrease in number of contracts was mainly due to the lockdowns in the major cities of China from the impact of the COVID-19 resurgence in March 2022. The increase in average contract value was due to the increase in number of sales of newly rolled out models which have higher contract price. The decrease in the gross profit margin was primarily due to the proportional decrease in the number of sales with higher capacity (usually with higher gross profit margin).

Note: Impairment of inventories of RMB6,010,000 was made during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB128,000) and charged to the "Cost of sales". The gross profit of the sales of asphalt mixing plants presented above and in this section has excluded the provision for impairment of inventories for analysis purpose.

By Types of Plants

	Six months ended 30 June		
	2022	2021	Change
	RMB'000	*RMB'000*	
Recycling Plant			
Revenue	**90,656**	94,446	-4.0%
Gross profit	**27,637**	30,833	-10.4%
Gross profit margin	**30.5%**	32.6%	-2.1pp
Number of contracts	**7**	8	-1
Average contract value	**12,951**	11,806	9.7%
Conventional Plant			
Revenue	**84,548**	86,113	-1.8%
Gross profit	**27,935**	30,184	-7.5%
Gross profit margin	**33.0%**	35.1%	-2.1pp
Number of contracts	**10**	12	-2
Average contract value	**8,455**	7,176	17.8%

Revenue from the sales of Recycling Plants decreased by 4.0% which was mainly due to the decrease in the number of contracts completed and partially offset by increase in the average contract value. The gross profit margin decreased by 2.1 percentage points to 30.5% was mainly due to the increase in manufacturing costs during the period.

Revenue from the sales of Conventional Plants decreased by 1.8% primarily because of the decrease in the number of contracts completed and partially offset by increase in the average contract value. The gross profit margin decreased by 2.1 percentage points to 33.0% was mainly due to proportional decrease in the number of sales with higher capacity (i.e. 4000 model series or above which have higher gross profit margin than lower capacity series) as compared to the last corresponding period.

By Geographical Location

	Six months ended 30 June		
	2022	2021	Change
	RMB'000	*RMB'000*	
PRC			
Revenue	**169,045**	171,696	-1.5%
Gross profit	**53,592**	59,530	-10.0%
Gross profit margin	**31.7%**	34.7%	-3.0pp
Number of contracts	**16**	17	-1
Average contract value	**10,565**	10,100	4.6%
Overseas			
Revenue	**6,159**	8,863	-30.5%
Gross profit	**1,980**	1,487	33.2%
Gross profit margin	**32.1%**	16.8%	15.3pp
Number of contracts	**1**	3	-2
Average contract value	**6,159**	2,954	108.5%

Revenue from the PRC sales decreased primarily because of the decrease in the number of contracts completed and partially offset by increase in the average contract value. The gross profit margin decreased by 3.0 percentage points to 31.7% was mainly due to the decrease in the number of sales with higher capacity sold during the period.

Revenue from the overseas sales decreased mainly because of the decrease in the number of contracts completed and partially offset by increase in the average contract value. The gross profit margin increased by 15.3 percentage points to 32.1% was mainly due to asphalt mixing plants sold were all PM model series which have lower contract price and lower gross profit margin in the last corresponding period.

Sales of Spare Parts and Components and Modified Equipment

	Six months ended 30 June		
	2022	2021	Change
	RMB'000	*RMB'000*	
Revenue	**18,575**	14,312	29.8%
Gross profit	**7,321**	5,464	34.0%
Gross profit margin	**39.4%**	38.2%	1.2pp

The Group sold spare parts and components for the asphalt mixing plants to its customers as value-added services. The Group also sold modified equipment, including modifying the Conventional Plants, installing key components with recycling functions, upgrading control systems and other customised services.

During the period, the revenue from sales of spare parts and components amounted to RMB10,033,000 (2021: RMB12,570,000) and the revenue from sales of modified equipment amounted to RMB8,542,000 (2021: RMB1,742,000). The increase in revenue was mainly due to the increase in the number of customers demand for modification of Conventional Plants. The gross profit margin increase by 1.2 percentage points during the period was mainly due to the improvement in gross profit margin of sales of modified equipment to 40.4%.

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.

No revenue from operating lease of asphalt mixing plants generated during the period (2021: RMB2,207,000) due to the last asphalt mixing plant held for operating lease business was disposed during the period. A gain on disposal of the asphalt mixing plant amounted to RMB1,049,000 (2021: RMB1,594,000) was recorded in "Other income and other gains, net". The operating lease business had been ceased during the period.

Other Income and Other Gains, Net

During the period, other income and other gains, net mainly represented government grants, fair value gain on a financial asset at fair value through profit or loss, net gain on disposal of non-current asset classified as asset held for sale, net off with the net exchange loss. The decrease was mainly due to the increase in net foreign exchange loss to RMB0.7 million (2021: exchange gain of RMB0.1 million) and offset by the fair value gain on the investment in convertible bond.

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. Increase in distribution costs was mainly due to the increase in sales of asphalt mixing plants through distributors and the increase in marketing expenses as the Company has launched marketing activities in promoting its newly rolled out modular models to the market during the period.

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses and legal and professional fees. During the period, administrative expenses decreased by approximately RMB4.7 million mainly due to the decrease in research and development expenses by RMB2.5 million.

Net Reversal of Impairment Losses on Financial Assets

The amount represented the net reversal of impairment losses on trade receivables of RMB4,948,000 (2021: net reversal of impairment losses on trade receivables of RMB5,221,000 and reversal of impairment losses on other receivables of RMB110,000). The reversal of provision for impairment loss was mainly due to the settlement of long overdue trade receivables during the period.

Share of Profit of an Associate

The amount represented the share of the profit of Topp Financial Leasing (Shanghai) Co., Ltd.* ("Shanghai Topp") of RMB861,000.

* *For identification purpose only*

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 slightly increase in finance income, net during the period was mainly due to the decrease in interest expenses as there was a decrease in borrowings.

Income Tax Expense

The income tax expense for the six months ended 30 June 2022 was mainly attributable to the deferred tax expense arisen from the reversal of impairment losses of trade receivables and the profit tax incurred by a PRC subsidiary of the Company which is a "high and new technology enterprise" entitled to a preferential tax rate of 15%.

(Loss)/Profit Attributable to Owners of the Company

Loss attributable to owners of the Company amounted to approximately RMB2,509,000 for the six months ended 30 June 2022 compared with the profit attributable to owners of the Company of approximately RMB8,228,000 for the six months ended 30 June 2021. The increase in loss for the period was mainly due to the decrease in revenue and gross profit and the increase in distribution costs as discussed above.

Working Capital Management

Net current assets of the Group amounted to RMB462,866,000 (31 December 2021: RMB466,251,000) with a current ratio of 2.8 times (31 December 2021: 2.9 times) as at 30 June 2022.

Inventories increased by RMB10,584,000 from RMB220,512,000 as at 31 December 2021 to RMB231,096,000 as at 30 June 2022. Inventory turnover days was 299 days for the six months ended 30 June 2022, representing an increase of 14 days as compared to 285 days for the year ended 31 December 2021. The increase in inventories and inventory turnover days was mainly due to the increase in raw materials purchased and work in progress for sales contracts signed but not yet recognised.

Trade and bills receivables increased by RMB28,176,000 from RMB196,364,000 as at 31 December 2021 to RMB224,540,000 as at 30 June 2022. Trade and bills receivables turnover days was 197 days for the six months ended 30 June 2022, representing an increase of 33 days as compared to 164 days for the year ended 31 December 2021. The increase in trade and bills receivables turnover days during the period was primarily due to (1) the delay in settlement from some of the PRC customers; and (2) the decrease in number of sales contracts completed. 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 RMB3,438,000 from RMB133,704,000 as at 31 December 2021 to RMB130,266,000 as at 30 June 2022. Trade and bills payables turnover days was 175 days for the six months ended 30 June 2022, representing an increase of 10 days as compared to 165 days for the year ended 31 December 2021. The increase in trade and bills payables and turnover days was mainly because of extended payments to suppliers and sub-contractors.

Liquidity and Financial Resources

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

As at 30 June 2022, the Group had cash and cash equivalents of RMB182,508,000 (31 December 2021: RMB199,644,000) and pledged bank deposits of RMB41,589,000 (31 December 2021: RMB50,029,000). In addition, the Group had interest-bearing bank borrowings of RMB11,552,000 (31 December 2021: RMB19,623,000). 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 1.7% (31 December 2021: 2.9%).

During the six months ended 30 June 2022, the Group recorded cash used in operating activities of RMB3,223,000 (six months ended 30 June 2021: cash generated from operating activities of RMB9,401,000). Net cash generated from investing activities amounted to RMB1,936,000 (six months ended 30 June 2021: RMB7,540,000) for the six months ended 30 June 2022. Net cash used in financing activities for the six months ended 30 June 2022 amounted to RMB17,181,000 (six months ended 30 June 2021: cash generated from financing activities of RMB8,833,000).

Capital Commitments and Contingent Liabilities

Capital Commitments as at 30 June 2022 not provided for in the consolidated financial statements were as follows:

	At 30 June 2022 *RMB'000*	At 31 December 2021 *RMB'000*
Contracted for		
– Property, plant and equipment	**858**	585

As at 30 June 2022, there is no capital commitments authorised but not contracted for (31 December 2021: Same).

Certain customers of Langfang D&G, a principal operating subsidiary of the Group, financed their purchases of the Group's plants through finance leases provided by Shanghai Topp. Under the leasing arrangements, Langfang D&G provided guarantee to Shanghai Topp that in the event of customer default, 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 2022, the Group's maximum exposure to such guarantees was approximately RMB54,603,000 (31 December 2021: RMB74,531,000).

Pledge of Assets

As at 30 June 2022, property, plant and equipment of RMB41,281,000 (31 December 2021: RMB40,237,000), land use right of RMB4,508,000 (31 December 2021: RMB4,573,000) and bank deposits of RMB41,589,000 (31 December 2021: RMB50,029,000) were pledged for borrowings and bills payables of the Group.

Foreign Exchange Risk

The reporting currency of the Group was Renminbi. The Group was exposed to foreign exchange risk through sales and purchases which were denominated in a foreign currency including US dollars and Euros. The appreciation or depreciation of Renminbi against these foreign currencies would increase or decrease the price of the Group's products which were sold to overseas 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 2022.

Significant Investments and Material Acquisitions or Disposals

During the six months ended 30 June 2022, the Group did not have any significant investments or material acquisitions or disposals.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, the Group had approximately 385 employees (31 December 2021: 381). The total staff costs for the six months ended 30 June 2022 amounted to approximately RMB30,712,000 (six months ended 30 June 2021: RMB35,104,000).

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, which includes salaries, discretionary bonuses, contributions to pension schemes, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. The Group also provided training to employees on a regular basis. In accordance with the relevant requirements, the Group made contributions to pension and provided other employees benefits.

The Company has adopted a share option scheme of the Company pursuant to which employees may be granted options to subscribe for shares of the Company as incentives or rewards for their services rendered to the Group. No option has been granted during the six months ended 30 June 2022 and 2021.

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2022.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2022.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the six months ended 30 June 2022, the Company has, in the opinion of the Directors, complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS

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

REVIEW OF INTERIM RESULTS

The Company has an audit committee (the "Audit Committee") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control systems. The Audit Committee comprises four members, namely Mr. O'Yang Wiley (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson. All of them are independent non-executive Directors. The interim results of the Group for the six months ended 30 June 2022 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 2022 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

The 2022 interim report will also be published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.dgtechnology.com and will be despatched to the shareholders of the Company in due course.

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

Hong Kong, 31 August 2022

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