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# 德 基 科 技

## D&G TECHNOLOGY

### D&G TECHNOLOGY HOLDING COMPANY LIMITED

<INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY>

STOCK CODE 1301



# 2020 ANNUAL 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. O'Yang Wiley  
Mr. Li Zongjin  
Mr. Lee Wai Yat, Paco  
Mr. Fok Wai Shun, Wilson

## Audit Committee

Mr. O'Yang Wiley (*Chairman*)  
Mr. Lee Wai Yat, Paco  
Mr. Li Zongjin  
Mr. Fok Wai Shun, Wilson

## Remuneration Committee

Mr. Fok Wai Shun, Wilson (*Chairman*)  
Ms. Choi Kwan Li, Glendy  
Mr. O'Yang Wiley

## 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. O'Yang Wiley  
Mr. Fok Wai Shun, Wilson  
Mr. Tsang Chin Pang (*resigned on 23 September 2020*)  
Mr. Chung Man Lai (*appointed on 23 September 2020*)

## Company Secretary

Mr. Tsang Chin Pang (*resigned on 23 September 2020*)  
Mr. Chung Man Lai (*appointed on 23 September 2020*)

## Authorised Representatives

Ms. Choi Kwan Li, Glendy  
Mr. Tsang Chin Pang (*resigned on 23 September 2020*)  
Mr. Chung Man Lai (*appointed on 23 September 2020*)

## 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  
*Certified Public Accountant and Registered PIE auditor*

## 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](http://www.dgtechnology.com)

## FIVE YEAR FINANCIAL SUMMARY

|  | 2020<br>RMB'000  | 2019<br>RMB'000 | 2018<br>RMB'000 | 2017<br>RMB'000 | 2016<br>RMB'000 |
|--|------------------|-----------------|-----------------|-----------------|-----------------|
| <b>Results</b>   |                  |                 |                 |                 |                 |
| Revenue  | <b>378,929</b>   | 446,426         | 328,155         | 447,927         | 321,449         |
| Gross Profit   | <b>77,997</b>    | 87,729          | 98,124          | 170,625         | 126,934         |
| (Loss)/profit attributable to owners of the Company for the year | <b>(17,244)</b>  | (35,076)        | (48,412)        | 21,157          | (28,499)        |
| <b>Assets, Liabilities and Equity</b>                            |                  |                 |                 |                 |                 |
| Total assets   | <b>923,128</b>   | 931,617         | 962,216         | 1,027,947       | 1,017,223       |
| Total liabilities  | <b>(275,912)</b> | (264,730)       | (265,052)       | (287,131)       | (281,294)       |
| Total Equity   | <b>647,216</b>   | 666,887         | 697,164         | 740,816         | 735,929         |

# CHAIRMAN'S STATEMENT



Dear Shareholders,

I am pleased to present the annual report of D&G Technology Holding Company Limited (the “Company”) and its subsidiaries (hereafter collectively referred to as the “Group”) for the year ended 31 December 2020 (the “year”).

During the year, the Coronavirus Disease 2019 (“COVID-19”) pandemic had struck the global economy with weakening economic activities and investments. In view of the market downturn, the People’s Republic of China (“PRC”, “China” or “Mainland China”) implemented quarantine measures to effectively control the COVID-19 epidemic and therefore recovered at a faster pace than other countries. President Xi further advocated the dual-circulation development pattern in 2020, the final year before the 14th Five Year Plan period (2021-2025), with the aim to boost domestic demand and reduce the influence from the global environment. In the second quarter of the year, the Chinese government has picked up the momentum to invest in fixed assets, as a way to fight against the evolving external risks arising from the COVID-19 pandemic. According to the “Investment in Fixed Assets from January to December 2020” released by National Bureau of Statistics of China in January 2021, the fixed asset investment increased by 2.9% year on year to RMB 51,890.7 billion from January to December in 2020 and the total investment in road transportation industry increased by 1.8%.

We envisaged promising outlook for the infrastructural sector, given the projected increase in government efforts to ensure economic stability through considerable investment in optimising the state’s transportation layout. In October 2020, Mr. Li Xiaopeng, Minister of Transport of the PRC concluded the national achievements that the highway mileage and

expressway mileage in China have reached 5,100,000 km and 155,000 km respectively, ranking the first in the world. On top of such achievement, the country has been on the track to build the national comprehensive transport-hub system, with over 460,000 km of expressways by 2035. This suggests a significant increase in investment and amount of resources devoted. In particular, the major provinces have been accelerating the preparation of the transport projects in 2021 to align with the national policy. Shandong province has plans to build an additional 2,500 km of highways before 2025, to enhance its established road network density in China. According to the Guangdong Expressway Network Plan (2020-2035), Guangdong will build 15,000 kilometers of new expressways by 2035, with an expressway network covering the province, linking up the ‘Pan-Pearl River Delta’. From 2021 to 2025, Guangdong will undertake 45 projects to push forward the province’s expressway mileage to 12500 kilometers, with a total investment of about RMB519.9 billion. With 2021 being the first year under the 14th Five Year Plan, provincial governments are strengthening efforts to boost the internal transport infrastructure and foster a high-quality urban development in the long run.

The major policy shift in China towards a domestically driven economy presented abundant opportunities for the road construction and maintenance machinery industry. During the year, we received a considerable number of contracts and made relentless efforts in production planning. Although delays in customers’ acceptance of commissioning and revenue recognition happened due to the transportation restrictions, the projects were progressing well in overall with our close supervision. We continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries, such as Xichang Ring



Expressway, Guangan Ring Expressway, Xiongan Section of Jingxiang Expressway, Chongqing Hechang Expressway etc. Leveraging on the Group's research and development centre, which is qualified as "Enterprise Technology Center of Hebei Province", we were in close and active collaboration with clients to develop equipment that could best facilitate their operations. Recently, the Group has applied the concept of "5G+ Industrial Internet of Things (IIoT)" to the field of asphalt mixing plant, and officially launched an industry first "5G+ IIoT" asphalt mixing plant in Hubei Province. This innovative advancement for the operation of asphalt mixing plant would lay a solid foundation for future development of fully automated production facility, allowing efficient management and quality assurance.

Looking ahead, the COVID-19 pandemic is still influencing the global market, adding uncertainties to the future development for all industries. However, Chinese government also showed determination to speed up the infrastructural development under the 14th Five Year Plan to improve the service capabilities of the transportation hub and promote economic and social developments. Officials said the country will push forward a number of infrastructural projects including the new western land-sea corridor. We have confidence that the increasing financial support for the establishment of a modern transportation system will bring tremendous business opportunities for us.

In the meantime, we will leverage on our over two decades of technical experience and industry insight to overcome all the challenges ahead, whilst gain firm foothold in the dynamic market to overcome any future growth barrier. The Group will continue to cooperate with higher education institutions to bolster our research and development capabilities, while

further optimising internal operational efficiency through the integration of digital upgrades.

In addition, the increasing awareness in environmental protection has also been positive for our product development. According to the "Sustainable Development of Transport in China" announced by the State Council Information Office of the PRC in December 2020, the government is in active reinforcement of eco-environmental protection and green development through promoting the recycling of asphalt. As one of the first manufacturers in China to develop recycling plants, the Company upholds the importance of environmental protection development and continues to stay abreast for sustainability with our product offerings for customers. The Group will devote further resources to enhance its research and development capabilities and cooperate with strategic partners to strengthen eco-environmental protection as a core social responsibility.

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

**Choi Hung Nang**  
*Chairman*

30 March 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2020, 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 PRC and overseas markets, specialising in the research and development, design, manufacturing and sale of conventional and recycling asphalt mixing plants.

## Business Review

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

During the year, the Group continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were thirty-eight (2019: forty-six) sales contracts of asphalt mixing plants completed by the Group during the year and the asphalt mixing plants were used in major highway construction and maintenance projects such as Xichang Ring Expressway (西昌繞城高速), Guangan Ring Expressway (廣安繞城高速), Xiongan Section of Jingxiong Expressway (京雄高速公路雄安段), Chongqing Hechang Expressway (重慶合長高速公路) etc. Revenue from sales of asphalt mixing plants decreased by approximately 13.9% during the year, whereas, the sales of asphalt mixing plants accounted for approximately 85.5% (2019: 84.4%) of the total revenue of the Group. Such decrease was mainly attributable to the impact from the outbreak of COVID-19 in early 2020. Not only did the Group experience difficulties in arranging the logistics for goods delivery to some of our customers in certain provinces in China in early 2020, but certain job sites of our customers also suspended operations and deferred the commissioning of our asphalt mixing plants. Although transportation restrictions in China have been gradually lifted in the second quarter of 2020, there were still some delays in the issuing of acceptance of commissioning of our asphalt mixing plants, resulting in the Group not being able to recognise the revenue of certain contracts in 2020. The Group's gross profit decreased to RMB77,997,000 (2019: RMB87,729,000) which was primarily due to the decrease in sales of asphalt mixing plants and the increase in impairment of inventories amounted to RMB32,977,000 (2019: RMB27,441,000) as a result of slow moving raw materials and work in progress; which was partially offset by the decrease in gross loss of operating lease business to RMB4,719,000 (2019: RMB7,519,000).

The increase in impairment of inventories during the year 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. The Group has also specifically reviewed and impaired certain work in progress which were pre-produced for potential orders. The Group has developed procedures to closely monitor the inventories level and expected it could be improved gradually.

On the other hand, the Group has 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. Due to the outbreak of COVID-19, operating lease business in China and Pakistan also slowed down and there was 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 decrease in production output directly affected the rental income of the Group. As a result, the rental income was not able to cover the fixed overhead of the plants and resulted in loss making position. In order to scale down the operating lease business, the Group has disposed eight sets of asphalt mixing plants during the year and diminished the gross loss of operating lease business.

Management has been cautiously monitoring the collection of trade receivables in order to improve the collection cycle. During the year, management continued to put effort in receivable collection and also tightened 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 have also been improved. The Group therefore made a reversal of provision for impairment loss of trade receivables of approximately RMB26.0 million during the year. 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group has been expanding its business and entering into potential markets along the “Belt and Road” countries. Out of the thirty-eight sales contracts of asphalt mixing plants completed during the year, eight were completed in overseas countries including Russia, India, Bahrain and Bangladesh. Although the overseas road construction projects along the “Belt and Road” countries slowed down during the year, the Group has signed one sales contract with a customer in Russia which is expected to be completed in the first half of 2021. To further penetrate the markets in the developing countries, the Group has also developed a compact mobile asphalt plants series to the 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 would resume once the COVID-19 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 exploring 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 7 March 2020, Langfang De Feng New Materials Technology Limited\* (“Langfang De Feng”) entered into a supplemental shareholders’ agreement with Sichuan Xin De Yuan Trading Limited\* (“Sichuan Xin De Yuan”) to increase the registered share capital of Sichuan RTDL from RMB10 million to RMB12 million. Sichuan Xin De Yuan and Langfang De Feng should contribute RMB6 million and RMB6 million, respectively.

After the resolution of shareholders’ meeting on 7 March 2020, the Group was able to appoint two directors of Sichuan RTDL, and obtained 50% voting right in Sichuan RTDL through board representation. Therefore, the Group has recorded its investment in Sichuan RTDL as an investment in a joint venture since 7 March 2020. 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 mixing plant station with local government in Sichuan. However, the progress of development of asphalt mixing plant station remained slow during the year.

### *Development of combustion technology*

During the year, the Group continued to conduct research on the combustion technology in order to develop the business of manufacturing and sale of burner combustion equipment and the provision of related technical support services. The burner combustion equipment can be applied in a wide spectrum including asphalt mixing plants, furnace, heating system, etc. As at 31 December 2020, thirty-nine (31 December 2019: thirty-one) patents of combustion technology were registered and 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 Machinery Technology Company Limited (“Langfang D&G”) (as the lender), has entered into a Convertible Bond Agreement (the “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\* (“Zhengfang Holding”), as a guarantor in the Convertible Bond Agreement, is a road construction company in Zhejiang, China and is an existing customer of Langfang D&G.

The Convertible Bond is in a total amount of RMB20 million. Prior to the drawdown, the Zhengfang ACT has increased its registered and paid-up capital to RMB50 million on 17 September 2020. The first tranche of RMB10 million and the second tranche of RMB10 million have been drawdown on 30 October 2020 and 30 December 2020, respectively. The Convertible Bond is interest bearing at 6% per annum with a loan period commencing from the drawdown date to 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 31 December 2020, two asphalt mixing plants contracts have been signed of which one of these two contracts has been completed during the year.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to the Convertible Bond Agreement, Langfang D&G has the right to exercise its equity conversion option, and the conversion ratio will be based on the higher of (i) 1.5 times of the net assets of the Zhengfang ACT as at 31 December 2023 calculated with reference to its audited accounts prepared in accordance with the PRC general accepted accounting principles (the “PRC GAAP”), or (ii) 6 times of the weighted average of its net profits for the years ended 31 December 2022 and 2023 calculated with reference to its audited accounts prepared in accordance with the PRC GAAP.

## Research and Development

To maintain its position as a leading market player in the road construction and maintenance machinery industry focusing on medium to large-scale asphalt mixing plants, the Group continued to maintain its strong research and development capabilities. As at 31 December 2020, the Group had one hundred and thirty registered patents in the PRC (of which four were invention patents and one appearance patent) and twenty-seven software copyrights. In addition, thirty-five patents were pending registration as at 31 December 2020.

## Marketing and Awards

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

During the year, the Group participated in various promotional events and technical seminars and corporate social responsibility events such as the new product DGX press conference, the Twelfth Forum of China International Engineering Purchasing Alliance on Supply-Demand Cooperation and the Earth Hour 2020.

In June 2020, the Group was awarded the “Caring Company” which was organised by the Hong Kong Council of Social Service. In July 2020, 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. In September 2020, the Group was awarded the Industry Cares 2020 by the Federation of Hong Kong Industries. In November 2020, the Group was awarded the “World’s Top 100 (Plus 50) Construction Machinery Manufacturer” and “China’s Top 50 Specialised Construction Equipment Manufacturers” by the T50 Summit of World Construction Machinery Industry. In December 2020, the Group was awarded the “Hong Kong Green Awards 2020 – Corporate Green Governance Award” which was organised by the Green Council. The Group has won this award for five consecutive years. It is a recognition of the Group’s commitment to green governance.

## Outlook

In view of the ongoing US-China trade war and COVID-19, 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 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.

Investment in infrastructure overseas is a way of building up strategic partnerships with countries along the “Belt and Road” region for the PRC government. However, the “Belt and Road” activities have slowed down due to the US-China trade war and COVID-19. It is expected that the US-China trade war shall continue but the Group is prepared to grasp the business opportunities arisen from “Belt and Road” construction projects once the tension between United States of America (the “US”) and China has been lessen.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

During the year, the Group's performance was adversely affected by COVID-19, however, the Group expects that the local demand for asphalt mixing plants shall gradually increase as the PRC government would inject more funds into domestic infrastructure projects to stimulate the local economies. Management also expects the customers shall accelerate the settlements going forward as more road construction projects and funding 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 the ASEAN region. To utilise the Group's wide clientele base of over 600 asphalt plants spreading across the PRC and 31 nations overseas, the Group is also exploring business opportunities in developing business 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 year ended 31 December 2020, the Group recorded a total revenue of RMB378,929,000 (2019: RMB446,426,000), representing a decrease of approximately 15.1% as compared to last year. The gross profit of the Group decreased from RMB87,729,000 for the year ended 31 December 2019 to RMB77,997,000 for the year ended 31 December 2020, representing a decrease of approximately 11.1%. The overall gross profit margin increased by 0.9 percentage points from 19.7% to 20.6%. The Group recorded a net loss attributable to owners of the Company of RMB17,244,000 compared with a net loss of RMB35,076,000 last year.

|   | 2020<br>RMB'000 | 2019<br>RMB'000 | Change |
|---|-----------------|-----------------|--------|
| Sales of asphalt mixing plants                  | <b>324,124</b>  | 376,590         | -13.9% |
| Sales of spare parts and modified equipment     | <b>49,055</b>   | 40,597          | 20.8%  |
| Operating lease income of asphalt mixing plants | <b>5,750</b>    | 29,239          | -80.3% |
|   | <b>378,929</b>  | 446,426         | -15.1% |

## Sales of Asphalt Mixing Plants

|                        | 2020<br>RMB'000 | 2019<br>RMB'000 | Change |
|------------------------|-----------------|-----------------|--------|
| Revenue                | <b>324,124</b>  | 376,590         | -13.9% |
| Gross profit (Note)    | <b>92,759</b>   | 106,229         | -12.7% |
| Gross profit margin    | <b>28.6%</b>    | 28.2%           | 0.4pp  |
| Number of contracts    | <b>38</b>       | 46              | -8     |
| Average contract value | <b>8,530</b>    | 8,187           | 4.2%   |

Revenue from the sales of asphalt mixing plants decreased as a result of the decrease in number of contracts completed. The decrease in number of contracts was mainly due to the impact of COVID-19 that increased difficulties in arranging the logistics for goods delivery to some of our customers in certain provinces in China in early 2020, certain job sites of our customers also suspended operations and deferred the commissioning of our asphalt mixing plants. The increase in the average contract value was primarily due to the proportional increase in demand for Conventional Plants with high capacity. The gross profit margin remained stable at around 28% during the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

Note: Impairment of inventories of RMB32,977,000 was made for the year ended 31 December 2020 (2019: RMB27,441,000) 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

|                            | 2020<br>RMB'000 | 2019<br>RMB'000 | Change |
|----------------------------|-----------------|-----------------|--------|
| <b>Recycling Plants</b>    |                 |                 |        |
| Revenue                    | <b>119,470</b>  | 147,015         | -18.7% |
| Gross profit               | <b>35,709</b>   | 46,529          | -23.3% |
| Gross profit margin        | <b>29.9%</b>    | 31.6%           | -1.7pp |
| Number of contracts        | <b>11</b>       | 13              | -2     |
| Average contract value     | <b>10,861</b>   | 11,309          | -4.0%  |
| <b>Conventional Plants</b> |                 |                 |        |
| Revenue                    | <b>204,654</b>  | 229,575         | -10.9% |
| Gross profit               | <b>57,050</b>   | 59,700          | -4.4%  |
| Gross profit margin        | <b>27.9%</b>    | 26.0%           | 1.9pp  |
| Number of contracts        | <b>27</b>       | 33              | -6     |
| Average contract value     | <b>7,580</b>    | 6,957           | 9.0%   |

Revenue from the sales of Recycling Plants decreased by 18.7% which was mainly due to the decrease in the number of contracts completed and the average contract value during the year. The gross profit margin decreased by 1.7 percentage points to 29.9% during the year. The decrease in gross profit margin was mainly due to the increase in manufacturing costs as a result of the increase in demand for customised asphalt mixing plants. The decrease in the average contract value was mainly due to the decrease in the number of Recycling Plants with high capacity sold as compared to last year.

Revenue from the sales of Conventional Plants decreased by 10.9% primarily because of the decrease in the number of contracts and offset by the increase in the average contract value during the year. The increase in gross profit margin was mainly due to relatively more asphalt mixing plants sold with higher capacity during the year. For the same result, the average contract value was increased compared to last year.

## By Geographical Location

|                        | 2020<br>RMB'000 | 2019<br>RMB'000 | Change |
|------------------------|-----------------|-----------------|--------|
| <b>PRC</b>             |                 |                 |        |
| Revenue                | <b>277,357</b>  | 344,480         | -19.5% |
| Gross profit           | <b>81,770</b>   | 98,074          | -16.6% |
| Gross profit margin    | <b>29.5%</b>    | 28.5%           | 1.0pp  |
| Number of contracts    | <b>30</b>       | 41              | -11    |
| Average contract value | <b>9,245</b>    | 8,402           | 10.0%  |
| <b>Overseas</b>        |                 |                 |        |
| Revenue                | <b>46,767</b>   | 32,110          | 45.6%  |
| Gross profit           | <b>10,989</b>   | 8,155           | 34.8%  |
| Gross profit margin    | <b>23.5%</b>    | 25.4%           | -1.9pp |
| Number of contracts    | <b>8</b>        | 5               | 3      |
| Average contract value | <b>5,846</b>    | 6,422           | -9.0%  |

# MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from the PRC sales decreased primarily because of the decrease in the number of contracts completed and the decrease was partially offset by the increase in the average contract value. The gross profit margin slightly increased by 1.0 percentage points to 29.5% during the year. The increase in average contract value during the year was mainly due to the proportional increase in the number of asphalt mixing plants with higher capacity sold during the year.

Revenue from the overseas sales increased mainly because of the increase in the number of contracts completed. The gross profit margin decreased by 1.9 percentage points to 23.5% was mainly due to all asphalt mixing plants sold during the year were 3000 model series or below which have lower gross profit margin. The decreased in the average contract value was mainly due to one of the sales in Bangladesh with relatively low contract price during the year.

## Sales of Spare Parts and Components and Modified Equipment

|                     | 2020<br>RMB'000 | 2019<br>RMB'000 | Change |
|---------------------|-----------------|-----------------|--------|
| Revenue             | <b>49,055</b>   | 40,597          | 20.8%  |
| Gross profit        | <b>22,934</b>   | 16,460          | 39.3%  |
| Gross profit margin | <b>46.8%</b>    | 40.5%           | 6.3pp  |

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.

The revenue from sales of spare parts and components amounted to RMB26,451,000 (2019: RMB22,075,000). The revenue from sales of modified equipment and RMB22,604,000 (2019: RMB18,522,000). The increase in revenue was mainly due to the increase in the number of customers demanded for repair and maintenance of asphalt mixing plants and modification of Conventional Plants. The gross profit margin increased by 6.3 percentage points during the year was mainly due to the improvement in gross profit margin of sales of modified equipment to 50.3% (2019: 35.3%).

## 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 RMB5,750,000 during the year (2019: RMB29,239,000). The decrease in revenue by 80.3% was primarily because the total volume of productions decreased as compared to last year. The decrease in production output by customers during the year was due to eight asphalt mixing plants were disposed. During the year, the Group recorded a gross loss (including impairment losses of property, plant and equipment) for its operating lease business of approximately RMB4,719,000 (2019: RMB7,519,000). The gross loss was mainly because of the decrease in customers' production of asphalt mixtures and hence the revenue could not cover the fixed overheads, including but not limited to staff costs and depreciation charged during the year. In addition, in the view of continuing loss of the operating lease business, the Group has made an impairment loss of property, plant and equipment of RMB3,677,000 (2019: RMB5,870,000) in respect of the fixed assets in Pakistan during the year. Since 2019, the Group has continued to dispose certain asphalt mixing plants and diminished the gross loss of operating lease business during the year. A gain on disposal of eight sets of asphalt mixing plants amounted to RMB5,701,000 (2019: loss on disposal of RMB454,000) was recorded in "Other income and other gains/(losses), net". Management will continue to reduce the number of asphalt mixing plants for operating lease business to an optimum scale and to improve the operating lease project quality by strengthening the control of contract review and implementation. As at 31 December 2020, four asphalt mixing plants (31 December 2019: twelve) were held for operating lease business.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Other Income and Other Gains/(Losses), Net**

During the year, other income and other gains/(losses), net mainly represented net exchange loss arising from trading transactions and translation of pledged bank deposits, government grants and gain on disposal of property, plant and equipment. The increase was mainly due to the increase in gain on disposal of asphalt mixing plants in operating lease business as discussed above.

## **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. Decrease in distribution costs was mainly due to the decrease in sales of asphalt mixing plants through distributors during the year.

## **Administrative Expenses**

Administrative expenses mainly included staff costs, research and development expenses, and legal and professional fees. During the year, the administrative expenses decreased by approximately RMB15.7 million was mainly due to the decrease in research and development expenses by RMB4.8 million and the decrease in share-based payment expenses by RMB3.2 million in relation to the share options granted in June 2018.

## **Net Reversal of Impairment Losses on Financial Assets**

The amount represented the net reversal of impairment losses on trade receivables of RMB26.0 million and provision for impairment of other receivables of RMB110,000 (2019: net reversal of impairment losses on trade receivables of RMB34.8 million). The reversal of impairment losses was mainly due to the settlement of long overdue trade receivables during the year. 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 mainly represented the share of the profit of Topp Financial Leasing (Shanghai) Co., Ltd.\* (“Shanghai Topp”) of RMB2,746,000.

## **Share of Profit of a Joint Venture**

The amount represented the share of the profit of Sichuan RTDL of RMB455,000. For details, please refer to Section “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 increase in net finance income during the year was mainly due to the decrease in interest expenses as decrease in borrowings.

## **Income Tax Expense**

Income tax expense for the year ended 31 December 2020 mainly resulted from the profits 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%, and the deferred income tax expenses which was mainly resulted from the decrease in deferred tax assets recognised and the withholding tax provided for the unremitted earnings of a PRC subsidiary of the Company.

## **Loss Attributable to Owners of the Company**

Loss attributable to owners of the Company amounted to approximately RMB17.2 million for the year ended 31 December 2020 compared with approximately RMB35.1 million for the year ended 31 December 2019. The loss for the year was mainly due to the decrease in revenue and gross profit, partially offset by the decrease in distribution costs and administrative expenses as discussed above.

## **Working Capital Management**

Net current assets of the Group amounted to RMB432,523,000 (31 December 2019: RMB423,207,000) with a current ratio of 2.6 times (31 December 2019: 2.6 times) as at 31 December 2020.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

Inventories decreased by RMB40,377,000 from RMB271,381,000 as at 31 December 2019 to RMB231,004,000 as at 31 December 2020. Inventory turnover days was 305 days for the year ended 31 December 2020, representing an increase of 20 days as compared to 285 days for the year ended 31 December 2019. The decrease in inventories and increase in inventory turnover days was mainly due to the provision for slow moving raw materials and work in progress primarily resulted from the customised design of asphalt mixing plants required by customers.

Trade and bill receivables decreased by RMB37,251,000 from RMB226,885,000 as at 31 December 2019 to RMB189,634,000 as at 31 December 2020. Trade and bill receivables turnover days was 201 days for the year ended 31 December 2020, representing an increase of 13 day as compared to 188 days for the year ended 31 December 2019. The decrease in trade and bill receivables was primarily due to the net reversal of impairment loss of RMB26.0 million provided during the year. The increase in trade and bills receivables turnover days during the year was primarily due to (1) the decrease in PRC contracts with finance lease as payment method; and (2) 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 bill payables increased by RMB22,899,000 from RMB104,295,000 as at 31 December 2019 to RMB127,194,000 as at 31 December 2020. Trade and bill payables turnover days was 140 days for the year ended 31 December 2020, representing an increase of 11 days as compared to 129 days for the year ended 31 December 2019. The increase in trade and bills payables and turnover days was mainly because of extended payments to suppliers and subcontractors.

## Liquidity and Financial Resources

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

As at 31 December 2020, the Group had cash and cash equivalents of RMB188,778,000 (31 December 2019: RMB94,912,000) and pledged bank deposits of RMB49,011,000 (31 December 2019: RMB47,413,000). In addition, the Group had interest-bearing bank borrowings of RMB31,145,000 (31 December 2019: RMB72,258,000). 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 4.8% (31 December 2019: 11.6%).

During the year ended 31 December 2020, the Group recorded a net cash generated from operating activities of RMB126,520,000 (2019: RMB29,903,000). Net cash generated from investing activities amounted to RMB9,680,000 (2019: net cash used in investing activities RMB7,903,000) for the year ended 31 December 2020. Net cash used in financing activities for the year ended 31 December 2020 amounted to RMB40,301,000 (2019: net cash generated from financing activities RMB8,961,000).

## Capital Commitments and Contingent Liabilities

The Group's capital commitments for investment in an associate and a joint venture and purchase of property, plant and equipment at the end of the year are as follows:

|                                 | <b>At 31 December<br/>2020<br/>RMB'000</b> | At 31 December<br>2019<br>RMB'000 |
|---------------------------------|--|-----------------------------------|
| Contracted for                  |  |                                   |
| – Investment in an associate    | –  | 3,000                             |
| – Investment in a joint venture | <b>4,500</b>                               | –                                 |
| – Property, plant and equipment | <b>2,015</b>                               | 2,320                             |
|                                 | <b>6,515</b>                               | 5,320                             |

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2020, there is no capital commitments authorised but not contracted for (31 December 2019: 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 third-party leasing companies and Shanghai Topp. Under the leasing arrangements, Langfang D&G provided guarantee to the third-party leasing companies and Shanghai Topp that in the event of customer default, the third-party leasing companies and Shanghai Topp have the rights to demand Langfang D&G to repay the outstanding lease payments due from the customers for the repossession of the leased plants. As at 31 December 2020, the Group's maximum exposure to such guarantees was approximately RMB91,570,000 (2019: RMB76,769,000).

## Pledge of Assets

As at 31 December 2020, property, plant and equipment of RMB42,419,000 (31 December 2019: RMB45,647,000), land use right of RMB4,705,000 (31 December 2019: RMB4,835,000) and bank deposits of RMB49,011,000 (31 December 2019: RMB47,413,000) 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 markets and might bring negative or positive impact on the Group's export sales. On the other hand, the appreciation or depreciation of Renminbi would also decrease or increase the cost of sales of the Group in respect of the purchases of raw materials from overseas. The management has continuously monitored the level of exchange rate exposure and shall adopt financial hedging instruments for hedging purpose when necessary. The Group did not use any financial instruments for hedging purpose for the year ended 31 December 2020.

## Significant Investments and Material Acquisitions or Disposals

During the year ended 31 December 2020, the Group did not have any significant investments or material acquisitions or disposals.

## Environmental Policy

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Compliance with Relevant Laws and Regulations

During the year ended 31 December 2020 and up to the date of this Annual Report, to the best knowledge of the Company, the Group has complied with all the relevant laws and regulations in Mainland China and Hong Kong which have a significant impact on the business and operations of the Group, and there is no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

## Relationships with Stakeholders

The Group aims to align its business strategies with its stakeholders' expectations and concerns. To better understand those expectations and concerns, the Group has to communicate and involve its stakeholders in its decision-making process. During the year ended 31 December 2020, the Group has engaged with its stakeholders on an ongoing basis via various engagement methods, such as online media and Wechat.

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

## Principal Risks and Uncertainties

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

### Industry risk in the PRC

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

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

### Industry risk in the overseas market

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

## **Financial credit risk**

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

## **Environmental compliance risk**

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

## **Quality control risk**

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

## **Employees and Remuneration Policy**

As at 31 December 2020, the Group had approximately 402 (2019: 436) employees. The total staff costs for the year ended 31 December 2020 amounted to approximately RMB68,791,000 (2019: RMB80,818,000).

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 Group has adopted a share option scheme pursuant to which employees and Directors may be granted options to subscribe for shares of the Company as incentives or rewards for their service rendered to the Group. No option has been granted during the year ended 31 December 2020 and 2019.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Mr. Choi Hung Nang**, aged 82, is our co-founder, chairman and executive Director. He was appointed as an executive Director on 11 September 2014. He is primarily responsible for supervising the operations and planning the business and marketing strategies of our Group. Mr. Choi established our Group in February 1999 and has been the chairman and director of Langfang D&G since June 2011. He is also a director of certain entities of the Group.

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

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

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

**Ms. Choi Kwan Li, Glendy**, aged 50, is our executive Director and chief executive officer. She was appointed as an executive Director on 11 September 2014. She is primarily responsible for overseeing the corporate management of our Group and the overall management and implementation of business and marketing strategies and plans. Ms. Glendy Choi has over 22 years of experience in the trading and manufacturing of specialised engineering equipment. She was appointed as a director and general manager of Langfang D&G in June 2009. She was also appointed as the legal representative of Langfang D&G in June 2011. She is also a director of certain entities of the Group.

Ms. Glendy Choi was awarded a master of business administration in marketing. She is a Fellow Certified Risk Planner of The Institute of Crisis and Risk Management. In November 2014, Ms. Glendy Choi was admitted as a fellow member of The Hong Kong Institute of Directors. In November 2015, Ms. Glendy Choi was admitted as a member of the Young Presidents' Organisation ("YPO") – World Presidents' Organisation and has been appointed as the Executive Committee Member of YPO Sea Dragon Chapter since July 2016. She was appointed as the Learning Officer of YPO Sea Dragon Chapter for 2018 to 2019 and was appointed as the Chapter Chair of YPO Sea Dragon Chapter for 2019 to 2020. In April 2016, Ms. Glendy Choi was admitted as a member of the Hong Kong Professionals and Senior Executives Association and was appointed as a Voting Member in November 2017. In December 2016, Ms. Glendy Choi was admitted as a member of the Hong Kong Young Industrialists Council and was appointed as a Committee Member in October 2017.

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

Ms. Glendy Choi was titled as "100 Most Influential Persons of China Construction Machinery Industry" for four consecutive years since 2017.

In April 2018, Ms. Glendy Choi was appointed as a Vice President of the China Construction Machinery Association Road Machine Chapter\* (中國工程機械工業協會築養路機械分會) for a term of five years.

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

\* For identification purpose only

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Choi Hon Ting, Derek** (formerly known as Choi Kwan Wai, Derek), aged 52, is our executive Director. He was appointed as an executive Director on 11 September 2014. Mr. Derek Choi has over 29 years of experience in the trading of specialised engineering equipment. He is primarily responsible for overseeing the strategic business development of our Group. Mr. Derek Choi has been appointed as a director of Langfang D&G since June 2011. He is also a director of certain entities of the Group.

Mr. Derek Choi was awarded a bachelor's degree in agricultural engineering from Purdue University in May 1991. Mr. Derek Choi has been admitted as a fellow member of the Hong Kong Institute of Directors since February 2005. In April 2016, he was admitted as a member of Hong Kong Professionals and Senior Executives Association (HKPASEA). Mr. Derek Choi has been appointed as an independent non-executive director of HM International Holdings Limited (Hong Kong stock code: 8416) since 15 December 2016.

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

**Mr. Liu Tom Jing-zhi**, aged 51, is our executive Director and chief operating officer. He was appointed as an executive Director on 11 September 2014. He is primarily responsible for overseeing daily operations of manufacturing facilities and the implementation of business strategies and plans of our Group. Mr. Liu has over 17 years of experience in corporate management and business operations. He joined our Group in August 2006 as the director and deputy general manager of Langfang D&G. He is also a director of certain entities of the Group.

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

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

**Mr. Lao Kam Chi**, aged 59, is our executive Director and general manager (sales and marketing). He is primarily responsible for managing and implementing sales and marketing strategies. Mr. Lao has over 33 years of experience in sales and marketing. Mr. Lao joined our Group in October 2002 as the general manager of the sales and marketing team in Beijing D&G Machinery Company Limited\* (北京德基機械有限公司). He has been a director of Langfang D&G since June 2011, and the general manager of our sales and marketing centre since August 2009.

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

With effective from 1 March 2021, the emolument of Mr. Lao for handling the operation matters of the Company has been increased from HK\$88,000 to HK\$90,000 per month.

\* For identification purpose only

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Non-executive Directors

**Mr. Chan Lewis** (formerly known as Chan Yeung), aged 50, was appointed as a non-executive Director on 15 December 2014. Mr. Chan is the managing partner of Maunakai Capital Partners (Hong Kong) Limited. He is also an executive director of DT Capital Limited (formerly known as Incutech Investments Limited) (Hong Kong stock code: 356). Mr. Chan was appointed as an independent non-executive director of Yuk Wing Group Holdings Limited (Hong Kong stock code: 1536) from December 2016 to April 2018. He has over 21 years of experience in asset management and investment research. Mr. Chan received his bachelor's degree in economics from the University of Chicago in June 1994 and his master of arts from Columbia University in May 1996. Mr. Chan further obtained his Ph.D. from Harvard University in June 2000.

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

**Mr. Alain Vincent Fontaine**, aged 66, was appointed as a non-executive Director on 15 August 2016. Mr. Fontaine is responsible for providing advice on corporate governance and internal control matters of the Group. Mr. Fontaine obtained a bachelor's degree in electrical engineering from the University of Sherbrooke in Canada in June 1979. He has been a member of the Order of Engineers of Québec since January 1980.

Mr. Fontaine serves as an executive director and the vice-chairman of Hong Kong Venture Capital and Private Equity Association. In 2000, he founded Investel Asia, a venture capital and private equity firm and served as its managing director from January 2004 to December 2006. He was the chief executive officer of Newcom LLC from January 2007 to September 2008. Mr. Fontaine served various positions within the BCE Inc. group, a communications group in Canada, including Bell Canada, Bell Ardis and Tata Cellular, for approximately 16 years of his career. Since September 2012, Mr. Fontaine has also been a member of the advisory board of Ocean Equity Partners Fund L.P., an indirect substantial shareholder interested in 49,412,000 shares of the Company, representing approximately 7.94% of the issued share capital of the Company. Mr. Fontaine has also been acting as a non-executive director of Tsaker Chemical Group Limited (Hong Kong stock code: 1986) since April 2015. He was an independent director of China Lending Corporation, a company listed on NASDAQ (ticker: CLDC) from July 2016 to 29 December 2017.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Independent Non-executive Directors

**Mr. O'Yang Wiley**, aged 58, has over 34 years of experience in accounting, finance and legal industry, was appointed as our independent non-executive Director on 1 May 2019.

Since October 2012, Mr. O'Yang has been an independent non-executive director, chairman of the audit committee and a member of the nomination committee of Hong Kong Economic Times Holdings Limited (Hong Kong stock code: 0423) and a member of its remuneration committee since 26 July 2019. Since October 2018, Mr. O'Yang has been an independent non-executive director, the chairman of the remuneration committee and a member of the audit committee of Midea Real Estate Holding Limited (Hong Kong stock code: 3990). Since 11 June 2019, Mr. O'Yang has been an independent non-executive director, chairman of the audit committee, and a member of the nomination committee of AB Builders Group Limited (Hong Kong stock code: 1615). Since 11 November 2019, Mr. O'Yang has been an independent non-executive director, chairman of the audit committee and a member of each of the nomination committee and remuneration committee of Tianyun International Holdings Limited (Hong Kong stock code: 6836).

Mr. O'Yang has been the managing director of Shanggu Securities Limited since February 2018. Prior to joining Shanggu Securities Limited, he worked for over 13 years as managing director and executive director in various financial institutions, including CMBC International Holdings Limited, a wholly-owned subsidiary of China Minsheng Banking Corp., Ltd. (Hong Kong stock code: 1988), Kim Eng Securities (Hong Kong) Limited, a wholly-owned subsidiary of Malayan Banking Berhad, UBS AG, Hong Kong branch, J.P. Morgan Securities (Asia Pacific) Limited and BNP Paribas Capital (Asia Pacific) Limited.

Mr. O'Yang had also worked for over six years as a solicitor in private practice at a number of solicitors' firms and was a partner of Richards Butler (currently known as Reed Smith Richards Butler) immediately before he joined BNP Paribas Capital (Asia Pacific) Limited in May 2004.

Mr. O'Yang graduated from the Chinese University of Hong Kong in Hong Kong with a bachelor's degree in Social Science in December 1985 and a master's degree in Business Administration in October 1990. He obtained a common professional examination certificate from the School of Professional and Continuing Education of the University of Hong Kong in Hong Kong in June 1993. He obtained the postgraduate certificate in Laws from the department of professional legal education of the Faculty of Law at the University of Hong Kong in June 1994. He is also a fellow member of the Chartered Association of Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Law Society of Hong Kong.

**Mr. Li Zongjin**, aged 68, was appointed as our independent non-executive Director on 24 April 2015. He has been the Chair Professor of the Institute of Applied Physics and Materials Engineering at the University of Macau since January 2017. Mr. Li graduated from Zhejiang University, China with a bachelor's degree in structure engineering in 1982. Mr. Li further obtained his master of science in December 1990 and his Ph.D. in December 1993 from Northwestern University, United States of America. Mr. Li is a fellow of the American Concrete Institute and was a member of the Hong Kong Institute of Engineers.

Mr. Li has over 31 years of experience in the field of civil and structural engineering and has published 6 books in the area of materials engineering. In August 2008, Mr. Li was appointed as a chief scientist under the National Basic Research Program of China (973 Project). Mr. Li's research project on geopolymer-based structural materials preparation technology was awarded second prize by the PRC Ministry of Education in January 2010. Mr. Li received the Arthur R. Anderson Medal from American Concrete Institute in 2017. In July 2017, Mr. Li retired from the Department of Civil and Environmental Engineering of the Hong Kong University of Science and Technology where he was a professor for 23 years.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Lee Wai Yat, Paco**, aged 55, was appointed as our independent non-executive Director on 24 April 2015. He has been the general manager (business development, global frozen and related business) of Thai Union Group Public Company Limited (formerly known as Thai Union Frozen Products Public Company Limited) (Stock Exchange of Thailand code: TU) since February 2017. He is also the non-executive director of Avanti Feeds Limited (listed on the Bombay Stock Exchange and National Stock Exchange of India Limited, ticker: AVANTI/AVANTIFEED) and Pakfood Public Company Limited (Stock Exchange of Thailand code: PPC and delisted in November 2013).

Mr. Lee has over 28 years of experience in capital markets, corporate finance and management. Mr. Lee graduated from Purdue University in May 1991 with a bachelor of science in management. Mr. Lee obtained his master of business administration from the Sasin Graduate Institute of Business Administration (a joint program between the Kellogg School of Management of Northwestern University, the Wharton School of University of Pennsylvania, and Chulalongkorn University) in Bangkok in March 1993.

Mr. Lee completed the Director Certification Program and Advanced Audit Committee Program, held by the Thai Institute of Directors in June 2012 and November 2020 respectively. In 2014, Mr. Lee was awarded as the 3rd Best Chief Financial Officer in Thailand by FinanceAsia's annual Best Managed Companies Poll.

**Fok Wai Shun, Wilson**, aged 46, was appointed as our independent non-executive Director on 24 April 2015. Mr. Fok has over 21 years of experience in the fields of corporate finance, accounting and investment banking. Mr. Fok holds a double bachelor degree in commerce and in laws from the University of Melbourne. Mr. Fok was admitted as a solicitor and barrister of the Supreme Court of Victoria, Australia in 1998 and is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of Certified Public Accountants, Australia.

Mr. Fok previously worked in the Assurance and Corporate Finance and Recovery departments of PricewaterhouseCoopers from 2000 to 2004. From 2004 to 2010, Mr. Fok served in various positions at the investment banking division of Piper Jaffray Asia Limited. From 2010 to 2014, Mr. Fok served at the corporate finance division of CCB International Capital Limited where his last position was executive director. From 2015 to 2018, he was the managing director of Challenge Capital Management Limited. From 2018 to 2019, he was the managing director of Titan Financial Services Limited. From 2019 to November 2020, he was the managing director, co-head and head of IPO of the corporate finance department of Opus Financial Group.

### Senior Management

**Mr. Chung Man Lai**, aged 44, joined the Group in August 2020 and was appointed as the chief financial officer and company secretary of the Group on 23 September 2020. He is responsible for the financial management, tax, treasury, corporate finance and company secretarial matters of the Group. Mr. Chung graduated from the Hong Kong Polytechnic University with a bachelor of arts degree in accountancy in November 1998 and a master of business administration degree with a major in international business from EU Business School in December 2018. Mr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Chung has over 20 years of experience in accounting and financing. Prior to joining the Group, he worked in Ernst & Yong from 2004 to 2007 and was the chief financial officers of CMIC Ocean En-Tech Holding Co., Ltd. (formerly known as TSC Group Holdings Limited) (Hong Kong stock code: 206) and IDT International Limited (Hong Kong stock code: 167) for the period from January 2008 to April 2016 and from April 2016 to December 2016, respectively.

Since December 2019, Mr. Chung has been appointed as an independent non-executive director of Century Group International Holdings Limited (Hong Kong stock code: 2113). Since March 2020, Mr. Chung has been appointed as a non-executive director of Greatwalle Inc. (Hong Kong stock code: 8315) and an independent non-executive director of Roma Group Limited (Hong Kong stock code: 8072). Mr. Chung was also an independent non-executive director of Aurum Pacific (China) Group Limited (Hong Kong stock code: 8148) for the period from 1 April 2020 to 15 September 2020 and redesigned as an executive director since 15 September 2020.

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

The Board has committed to maintaining high corporate governance standards.

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

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

In the opinion of the Directors, throughout the year ended 31 December 2020, the Company has complied with all the code provisions as set out in the CG Code.

## Model Code for Securities Transactions

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2020.

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

## Board of Directors

The Board currently comprises eleven members, consisting of five executive Directors, two non-executive Directors and four independent non-executive Directors. The executive Directors, non-executive Directors and independent non-executive Directors during the year ended 31 December 2020 were as follows:

### Executive Directors:

Mr. Choi Hung Nang (*Chairman of the Board and chairman of the Nomination Committee*)

Ms. Choi Kwan Li, Glendy

*(Chief Executive Officer, chairman of the Risk Management Committee and member of the Remuneration Committee)*

Mr. Choi Hon Ting, Derek

Mr. Liu Tom Jing-zhi (*Chief Operating Officer and member of the Risk Management Committee*)

Mr. Lao Kam Chi

### Non-executive Directors:

Mr. Chan Lewis

Mr. Alain Vincent Fontaine

## **Independent Non-executive Directors:**

Mr. O'Yang Wiley (*Chairman of the Audit Committee and member of the Remuneration Committee and Risk Management Committee*)  
Mr. Li Zongjin (*Member of the Audit Committee and Nomination Committee*)  
Mr. Lee Wai Yat, Paco (*Member of the Audit Committee and Nomination Committee*)  
Mr. Fok Wai Shun, Wilson (*Chairman of the Remuneration Committee and member of the Audit Committee and Risk Management Committee*)

The biographical information of the Directors as well as the relationships between the members of the Board are set out under "Biographical Details of Directors and Senior Management" on pages 17 to 21 of this Annual Report.

## **Chairman and Chief Executive Officer**

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

## **Independent Non-executive Directors**

During the year ended 31 December 2020, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

## **Non-executive Directors and Directors' Re-election**

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

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

Mr. Alain Vincent Fontaine, a non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 15 August 2016 and renewed his service agreement with the Company for a further period of three years commencing from 15 August 2019. Mr. O'Yang Wiley, an independent non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 1 May 2019. Both Mr. Fontaine and Mr. O'Yang's appointments are subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

# CORPORATE GOVERNANCE REPORT

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

## **Responsibilities, Accountabilities and Contributions of the Board and Management**

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

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

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

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

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

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

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

## **Continuous Professional Development of Directors**

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

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

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

# CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, all Directors had provided to the Company their training records. All Directors participated in continuous professional development exercised by way of attending seminars/conferences/forums organised by professional organisations and keep themselves updated on the roles, functions and duties of a listed company director. In addition, relevant reading materials including directors' manual, legal and regulatory update and seminar handouts have been provided to the Directors for their reference and studying. The trainings attended by the Directors are in the areas of corporate governance, regulatory update, financial management, director's duties and responsibilities, environmental, social and governance, business skills and knowledge, etc. The Company is of the view that all Directors have complied with code provision A.6.5 of the CG Code.

## Board Committees

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

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

### Audit Committee

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

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

During the year ended 31 December 2020, the Audit Committee held two meetings to review annual financial results and report in respect of the year ended 31 December 2019, interim financial results and report in respect of the period ended 30 June 2020, significant issues on the financial reporting and compliance procedures, the effectiveness of the internal control and risk management systems and internal audit function, scope of work and appointment of external auditor, arrangements for employees to raise concerns about possible improprieties and to discuss the audit plan for the year ended 31 December 2020 of the Company. The attendance records of the Audit Committee are set out under "Attendance Records of Directors and Committee Members" of this Annual Report.

### Remuneration Committee

The Remuneration Committee currently comprises three members, namely, Mr. Fok Wai Shun, Wilson (Chairman) (independent non-executive Director), Ms. Choi Kwan Li, Glendy (executive Director) and Mr. O'Yang Wiley (independent non-executive Director).

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

# CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Remuneration Committee held one meeting to make recommendations to the Board on the remuneration policy and structure of the Company, the remuneration packages of the executive Directors and senior management and other related matters. The attendance records of the Remuneration Committee are set out under “Attendance Records of Directors and Committee Members” of this Annual Report.

Details of the remuneration of the senior management for the year ended 31 December 2020 are set out in note 9(b) in the “Notes to the Consolidated Financial Statements” of this Annual Report.

## **Nomination Committee**

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

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

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

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

During the year ended 31 December 2020, the Nomination Committee held one meeting to review the structure, size and composition of the Board, the independence of the independent non-executive Directors, the Board Diversity Policy and to consider the qualifications of the retiring Directors standing for election at the annual general meeting of the Company. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained. The attendance records of the Nomination Committee are set out under “Attendance Records of Directors and Committee Members” of this Annual Report.

## **Risk Management Committee**

The Risk Management Committee currently comprises five members, namely, Ms. Choi Kwan Li, Glendy (Chairman) (executive Director), Mr. Liu Tom Jing-zhi (executive Director), Mr. O’Yang Wiley, Mr. Fok Wai Shun, Wilson (independent non-executive Directors) and Mr. Chung Man Lai (chief financial officer).

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

During the year ended 31 December 2020, the Risk Management Committee held four meetings to review and make recommendation on the adequacy and effectiveness of the Group’s risk management and internal control system. The attendance records of the Risk Management Committee are set out under “Attendance Records of Directors and Committee Members” of this Annual Report.

## **Board Diversity Policy**

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

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

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

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

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

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

## **Director Nomination Policy**

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

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

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

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

# CORPORATE GOVERNANCE REPORT

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2020, there was no change in the composition of the Board.

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

## Corporate Governance Functions

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

During the year ended 31 December 2020, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## Attendance Records of Directors and Committee Members

The attendance records of each Director at the Board and Board committee meetings and the annual general meeting of the Company held during the year ended 31 December 2020 are set out in the table below:

| Name of Director           | Attendance/Number of Meetings |                 |                        |                      |                           |                        |
|----------------------------|-------------------------------|-----------------|------------------------|----------------------|---------------------------|------------------------|
|                            | Board                         | Audit Committee | Remuneration Committee | Nomination Committee | Risk Management Committee | Annual General Meeting |
| Mr. Choi Hung Nang         | 6/6                           | -               | -                      | 1/1                  | -                         | 1/1                    |
| Ms. Choi Kwan Li, Glendy   | 6/6                           | 2/2             | 2/2                    | -                    | 4/4                       | 1/1                    |
| Mr. Choi Hon Ting, Derek   | 6/6                           | -               | -                      | -                    | -                         | 1/1                    |
| Mr. Liu Tom Jing-zhi       | 5/6                           | -               | -                      | -                    | 4/4                       | 1/1                    |
| Mr. Lao Kam Chi            | 5/6                           | -               | -                      | -                    | -                         | 0/1                    |
| Mr. Chan Lewis             | 5/6                           | -               | -                      | -                    | -                         | 0/1                    |
| Mr. Alain Vincent Fontaine | 5/6                           | -               | -                      | -                    | -                         | 1/1                    |
| Mr. O'Yang Wiley           | 5/6                           | 2/2             | 2/2                    | -                    | 4/4                       | 1/1                    |
| Mr. Li Zongjin             | 5/6                           | 2/2             | -                      | 1/1                  | -                         | 0/1                    |
| Mr. Lee Wai Yat, Paco      | 5/6                           | 2/2             | -                      | 1/1                  | -                         | 0/1                    |
| Mr. Fok Wai Shun, Wilson   | 5/6                           | 2/2             | 2/2                    | -                    | 4/4                       | 1/1                    |

Apart from regular Board meetings, the Chairman also held one meeting with the independent non-executive Directors without the presence of other Directors during the year ended 31 December 2020.

## Directors' Responsibility in Respect of the Financial Statements

### Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020.

# CORPORATE GOVERNANCE REPORT

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 46 to 50 of this Annual Report.

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

## Auditor's Remuneration

An analysis of the fees charged by the external auditor of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended 31 December 2020 is set out below:

| Service Category   | Fees<br>RMB'000 |
|--------------------|-----------------|
| Audit Services     | 1,552           |
| Non-audit Services | 233             |
|                    | 1,785           |

## Risk Management and Internal Controls

### Role of the Board

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

The Board has reviewed the risk management and internal control systems of the Group and considered them to be effective and adequate and did not note any material deviation during the year ended 31 December 2020. The management has confirmed to the Board, the Audit Committee and the Risk Management Committee on the effectiveness of the risk management and internal control systems of the Company for the year ended 31 December 2020.

### Framework of the Risk Management and Internal Control Systems

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

#### Board

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

# CORPORATE GOVERNANCE REPORT

## *Audit Committee and Risk Management Committee*

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

## *Management*

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

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

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

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

### *Risk Identification:*

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

### *Risk Assessment:*

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

### *Risk Response:*

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

### *Risk Monitoring and Reporting:*

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

# CORPORATE GOVERNANCE REPORT

## Internal Audit Function

The Group has its internal audit function to conduct the annual review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2020. Such review is conducted annually. The scope of review was previously determined and approved by the Audit Committee and the Risk Management Committee. Major findings and areas for improvement have been reported to the Audit Committee and the Risk Management Committee. All recommendations from the risk management and internal control review adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Group therefore considered that the risk management and internal control systems are effective and adequate.

## Whistleblowing Policy

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

## Disclosure Policy

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

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

## Company Secretary

Mr. Chung Man Lai, who is also the chief financial officer of the Company, was appointed by the Board as the company secretary of the Company with effect from 23 September 2020. The role of the company secretary is to ensure good information flow within the Board and between the Board and senior management, provide advice to the Board in relation to directors' obligations under the Listing Rules and applicable laws and regulations and assist the Board in implementing corporate governance practices. In accordance with Rule 3.29 of the Listing Rules, the Company has received training information from Mr. Chung, pursuant to the content of which, the Company confirmed that Mr. Chung had taken not less than 15 hours of relevant professional trainings to update his skills and knowledge during the year ended 31 December 2020.

## Shareholders' Rights

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

# CORPORATE GOVERNANCE REPORT

## **Procedure for shareholders to convene an extraordinary general meeting**

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

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

After the publication of the notice of a general meeting by the Company, according to Article 85 of the Articles of Association, if a shareholder of the Company (other than the person to be proposed) duly qualified to attend and vote at an annual general meeting of the Company wishes to propose a person (the "Candidate") for election as a Director at the general meeting, he/she shall deposit a written notice (the "Notice") at the Company's registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands, its principal place of business in Hong Kong at 7/F, Hing Lung Commercial Building, 68-74 Bonham Strand, Sheung Wan, Hong Kong or at the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. The Notice (a) must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (b) must be signed by the shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information. The period for lodgement of the Notice shall commence on the date after the despatch of the notice of the general meeting and end no later than seven days prior to the date of such general meeting. In order to allow the Company's shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director, shareholders who wish to make the proposal are urged to submit and lodge the Notice as early as practicable before the relevant general meeting.

## **Procedure for putting forward enquiries**

For enquiries about shareholdings, shareholders should direct their enquiries to the Company's branch share registrar, Tricor Investor Services Limited, via its online holding enquiry service at [www.tricoris.com](http://www.tricoris.com), or send email to [is-enquiries@hk.tricorglobal.com](mailto:is-enquiries@hk.tricorglobal.com) or call its hotline at (852) 2980 1333, or go in person to its public counter at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

Shareholders' information may be disclosed as required by law.

## **Communication with Shareholders and Investors/Investor Relations**

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

# CORPORATE GOVERNANCE REPORT

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

There was no change in the Articles of Association during the year ended 31 December 2020. An up to date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

## Policy relating to shareholders

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

## Deed of Non-Competition Undertakings

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

The Company has received a declaration made by the Controlling Shareholders in compliance with the deed of non-competition for the year ended 31 December 2020.

The independent non-executive Directors have conducted a review on the compliance and enforcement of the deed of non-competition by the Controlling Shareholders for the year ended 31 December 2020.

## Compliance with the Sanctions Undertaking

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

During the year ended 31 December 2020, the internal control committee of the Company, which members are Mr. Chung Man Lai (chief financial officer of the Company) and Ms. Ng Po Fung (assistant to the Chief Executive Officer), held a meeting to evaluate the Group from a sanctions risk perspective and to ensure the nature and location of the activities or business, as well as the identity of the counterparties and the products involved, etc., would not violate the Sanctions Undertaking.

# REPORT OF THE DIRECTORS

The Directors are pleased to present the Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

## Principal Place of Business

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

## Principal Activities and Business Review

The principal activities of the Group are manufacturing, distribution, research and development and operating lease of asphalt mixing plants and sales of spare parts and modified equipment. The principal activities and other particulars of the subsidiaries are set out in note 16 to the consolidated financial statements. During the year, there was no significant change in the Group's principal activities.

Detailed business review, including further discussions of the risks and uncertainties facing the Group, likely future development of the Group's business, and analysis on the financial key performance indicators, are set out in the Chairman's Statement on pages 4 to 5 of this Annual Report and the Management Discussion and Analysis on pages 6 to 16 of this Annual Report. These discussions form part of this Report of the Directors.

## Results and Dividends

The loss of the Group for the year ended 31 December 2020 and the state of affairs of the Company and the Group as at 31 December 2020 are set out in the audited consolidated financial statements on pages 51 to 118 of this Annual Report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2020. No interim dividend has been declared for the year ended 31 December 2020.

## Five Year Financial Summary

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

## Distributable Reserves

The distributable reserves of the Company as at 31 December 2020 amounted to RMB413,759,000.

## Non-current Assets

Details of acquisitions and other movements in non-current assets (including property, plant and equipment, leases and intangible assets) during the year are set out in notes 13 to 15 to the consolidated financial statements.

## Share Issued in the Year

Details of the movements in share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

## Debentures Issued in the Year

No debentures were issued by the Company during the year ended 31 December 2020.

## Pre-Emptive Rights

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

## Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2020.

## Major Customers and Suppliers

During the year ended 31 December 2020, aggregate sales to the Group's largest and five largest customers accounted for 3.8% (2019: 10.2%) and 18.2% (2019: 26.6%), respectively, of the Group's total revenue for the year.

Aggregate purchases from the Group's largest and five largest suppliers accounted for 3.0% (2019: 2.8%) and 12.7% (2019: 11.9%), respectively, of the Group's total purchases for the year ended 31 December 2020. Aggregate purchases from the Group's largest and five largest subcontractors accounted for 4.7% (2019: 4.3%) and 14.4% (2019: 15.3%), respectively, of the Group's total purchases for the year ended 31 December 2020.

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

## Relationship with Employees

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

## Directors

The Directors during the year ended 31 December 2020 and up to the date of this Annual Report were:

### Executive Directors

Mr. Choi Hung Nang (*Chairman*)  
Ms. Choi Kwan Li, Glendy (*Chief Executive Officer*)  
Mr. Choi Hon Ting, Derek  
Mr. Liu Tom Jing-zhi  
Mr. Lao Kam Chi

### Non-Executive Directors

Mr. Chan Lewis  
Mr. Alain Vincent Fontaine

# REPORT OF THE DIRECTORS

## **Independent Non-Executive Directors**

Mr. O'Yang Wiley  
Mr. Li Zongjin  
Mr. Lee Wai Yat, Paco  
Mr. Fok Wai Shun, Wilson

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

Pursuant to Article 84 of the Articles of Association, Mr. Liu Tom Jing-zhi, Mr. Lao Kam Chi, Mr. Chan Lewis and Mr. Fok Wai Shun, Wilson shall retire from the office by rotation at the forthcoming annual general meeting. All the retiring Directors, being eligible, will offer themselves for re-election.

## **Biographical Details of Directors and Senior Management**

Biographical details of the Directors and the senior management of the Company are set out on pages 17 to 21 of this Annual Report.

## **Directors' Service Contracts**

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

Mr. Alain Vincent Fontaine, a non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 15 August 2016 and renewed his service agreement with the Company for a further period of three year commencing from 15 August 2019. Mr. O'Yang Wiley, an independent non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 1 May 2019. Both Mr. Fontaine and Mr. O'Yang's appointments are subject to the termination at any time by either party giving to the other not less than three months' notice in writing and retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

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

## **Directors' Remuneration**

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

# REPORT OF THE DIRECTORS

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

As at 31 December 2020, the interests or short positions of the Directors, the chief executives of the Company (the "Chief Executives") and their associates in the shares of the Company (the "Shares"), underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

### (i) Interests in Shares and underlying shares

| Name of Director           | Long/Short position | Type of interest                                  | Number of Shares and underlying shares held | Approximate percentage of shareholding in the Company |
|----------------------------|---------------------|---|---|---|
| Mr. Choi Hung Nang         | Long                | Interest in controlled corporation <sup>(1)</sup> | 345,696,000                                 | 55.58%  |
|                            | Long                | Interest of spouse <sup>(2)</sup>                 | 620,000                                     | 0.10%   |
|                            | Long                | Beneficial owner                                  | 39,462,000                                  | 6.34%   |
|                            | Long                | Beneficial owner <sup>(3)</sup>                   | 8,000,000                                   | 1.29%   |
| Ms. Choi Kwan Li, Glendy   | Long                | Beneficial owner                                  | 150,000                                     | 0.02%   |
|                            | Long                | Beneficial owner <sup>(3)</sup>                   | 8,000,000                                   | 1.29%   |
| Mr. Choi Hon Ting, Derek   | Long                | Beneficial owner                                  | 150,000                                     | 0.02%   |
|                            | Long                | Beneficial owner <sup>(3)</sup>                   | 8,000,000                                   | 1.29%   |
| Mr. Liu Tom Jing-zhi       | Long                | Interest in controlled corporation <sup>(4)</sup> | 13,500,000                                  | 2.17%   |
|                            | Long                | Interest of spouse <sup>(4)</sup>                 | 150,000                                     | 0.02%   |
|                            | Long                | Beneficial owner <sup>(5)</sup>                   | 4,000,000                                   | 0.64%   |
| Mr. Lao Kam Chi            | Long                | Interest in controlled corporation <sup>(6)</sup> | 9,000,000                                   | 1.45%   |
|                            | Long                | Beneficial owner <sup>(5)</sup>                   | 4,000,000                                   | 0.64%   |
| Mr. Chan Lewis             | Long                | Beneficial owner <sup>(7)</sup>                   | 600,000                                     | 0.10%   |
| Mr. Alain Vincent Fontaine | Long                | Beneficial owner <sup>(8)</sup>                   | 300,000                                     | 0.05%   |
| Mr. Li Zongjin             | Long                | Beneficial owner <sup>(7)</sup>                   | 600,000                                     | 0.10%   |
| Mr. Lee Wai Yat, Paco      | Long                | Beneficial owner                                  | 300,000                                     | 0.05%   |
|                            | Long                | Beneficial owner <sup>(9)</sup>                   | 300,000                                     | 0.05%   |
| Mr. Fok Wai Shun, Wilson   | Long                | Beneficial owner <sup>(10)</sup>                  | 800,000                                     | 0.13%   |

# REPORT OF THE DIRECTORS

## (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 in the Company |
|--------------------------|--|---------------------|------------------|---|
| 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 year ended 31 December 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.

## REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2020, none of the Directors, the Chief Executives nor their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2020, 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 <sup>1</sup>                              | Long                | Beneficial owner                   | 345,696,000                                 | 55.58%  |
| Mr. Choi Hung Nang <sup>1</sup>                    | Long                | Interest in controlled corporation | 345,696,000                                 | 55.58%  |
|  | Long                | Interest of spouse                 | 620,000                                     | 0.10%   |
|  | Long                | Beneficial owner                   | 39,462,000                                  | 6.34%   |
|  | Long                | Beneficial owner <sup>2</sup>      | 8,000,000                                   | 1.29%   |
| Ms. Tin Suen Chu <sup>1</sup>                      | Long                | Interest of spouse                 | 393,158,000                                 | 63.21%  |
|  | Long                | Beneficial owner                   | 620,000                                     | 0.10%   |
| Regal Sky Holdings Limited <sup>3</sup>            | Long                | Beneficial owner                   | 49,412,000                                  | 7.94%   |
| Ocean Equity Partners Fund L.P. <sup>3</sup>       | Long                | Interest in controlled corporation | 49,412,000                                  | 7.94%   |
| Ocean Equity Partners Fund GP Limited <sup>3</sup> | Long                | Interest in controlled corporation | 49,412,000                                  | 7.94%   |

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.

- Mr. Choi Hung Nang 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 and was deemed to be interested in 8,000,000 underlying shares in respect of the share options granted.
- 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.

# REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2020, no other interests or short positions in the Shares or underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

## Share Option Scheme

The Company's Share Option Scheme was adopted pursuant to the resolutions of all the shareholders passed on 6 May 2015 and shall be valid and effective for a period of 10 years commencing from 6 May 2015. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of the employees and directors of the members of the Group and other selected participants.

The Board may at its absolute discretion (subject to any conditions as it may think fit) grant options to any employee and director (including executive director, non-executive director and independent non-executive director) of any member of the Group and any other eligible participants (the "Eligible Participants") upon the terms set out in the Share Option Scheme.

The subscription price of a Share payable on the exercise of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price shall at least be the highest of: (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities ("Business Day"); and (iii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of offer or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme. HK\$1.00 is payable by an Eligible Participant on acceptance of an offer of option. The period within which the Shares must be taken up under an option shall be determined by the Board at its absolute discretion and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme. There is no general requirement that an option must be held for any minimum period before it can be exercised.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other schemes of our Group must not in aggregate exceed 10% of the total number of Shares in issue as at the date on which the Shares were listed on the main board of the Stock Exchange on 27 May 2015 (the "Limit"), i.e. 60,000,000 Shares representing approximately 9.65% of the issued Shares as at the date of this Annual Report. Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other schemes of the Group) will not be counted for the purpose of calculating the Limit. Subject to the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Company may refresh the Limit at any time provided that: (i) the Limit as refreshed does not exceed 10% of the Shares in issue as at the date of the approval by the refreshed Limit; (ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Limit as refreshed; and (iii) a circular containing the information and the disclaimer, respectively required under Rule 17.02(2)(d) and Rule 17.02(4) of the Listing Rules shall be despatched to the shareholders together with the notice of the relevant general meeting. Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme at any time shall not exceed 30% of the Shares in issue from time to time.

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

## REPORT OF THE DIRECTORS

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

During the year ended 31 December 2020, out of the above share options granted, none was cancelled and exercised while 2,000,000 share options lapsed.

The fair values of the share options granted on 20 April 2016 and 5 June 2018 were HK\$7,823,400 (equivalent to approximately RMB6,780,000) and HK\$10,279,500 (equivalent to approximately RMB8,678,000) respectively, of which the Group recognised a share option expense of approximately RMB1,092,000 (2019: RMB4,245,000) during the year ended 31 December 2020.

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

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

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

Particulars and movements of share options granted under the Share Option Scheme during year ended 31 December 2020 were as follows:

| Name of Grantee          | Date of Grant | Exercise Period       | Exercise Price per Share | Outstanding as at 1 January 2020 | Granted during the year | Exercised during the year | Cancelled/ Lapsed during the year | Outstanding as at 31 December 2020 |
|--------------------------|---------------|-----------------------|--------------------------|----------------------------------|-------------------------|---------------------------|-----------------------------------|------------------------------------|
| <b>Directors</b>         |               |                       |                          |                                  |                         |                           |                                   |                                    |
| 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                          |

# REPORT OF THE DIRECTORS

| Name of Grantee            | Date of Grant | Exercise Period       | Exercise Price per Share | Outstanding as at 1 January 2020 | Granted during the year | Exercised during the year | Cancelled/ Lapsed during the year | Outstanding as at 31 December 2020 |
|----------------------------|---------------|-----------------------|--------------------------|----------------------------------|-------------------------|---------------------------|-----------------------------------|------------------------------------|
| 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. 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. Li Zongjin             | 20/4/2016     | 1/10/2016 – 19/4/2021 | HK\$0.88                 | 100,000                          | -                       | -                         | -                                 | 100,000                            |
|                            | 20/4/2016     | 1/10/2017 – 19/4/2021 | HK\$0.88                 | 100,000                          | -                       | -                         | -                                 | 100,000                            |
|                            | 20/4/2016     | 1/10/2018 – 19/4/2021 | HK\$0.88                 | 100,000                          | -                       | -                         | -                                 | 100,000                            |
|                            | 5/6/2018      | 1/10/2019 – 4/6/2023  | HK\$1.12                 | 150,000                          | -                       | -                         | -                                 | 150,000                            |
|                            | 5/6/2018      | 1/10/2020 – 4/6/2023  | HK\$1.12                 | 150,000                          | -                       | -                         | -                                 | 150,000                            |
| Mr. Lee Wai Yat, Paco      | 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                            |
|                            |               |                       |                          | 34,600,000                       | -                       | -                         | -                                 | 34,600,000                         |
| <b>Other employees</b>     |               |                       |                          |                                  |                         |                           |                                   |                                    |
| in aggregate               | 20/4/2016     | 1/10/2016 – 19/4/2021 | HK\$0.88                 | 200,000                          | -                       | -                         | -                                 | 200,000                            |
|                            | 20/4/2016     | 1/10/2017 – 19/4/2021 | HK\$0.88                 | 250,000                          | -                       | -                         | -                                 | 250,000                            |
|                            | 20/4/2016     | 1/10/2018 – 19/4/2021 | HK\$0.88                 | 300,000                          | -                       | -                         | -                                 | 300,000                            |
|                            | 5/6/2018      | 1/10/2019 – 4/6/2023  | HK\$1.12                 | 2,200,000                        | -                       | -                         | (1,000,000)                       | 1,200,000                          |
|                            | 5/6/2018      | 1/10/2020 – 4/6/2023  | HK\$1.12                 | 2,200,000                        | -                       | -                         | (1,000,000)                       | 1,200,000                          |
|                            |               |                       |                          | 5,150,000                        | -                       | -                         | (2,000,000)                       | 3,150,000                          |
|                            |               |                       |                          | 39,750,000                       | -                       | -                         | (2,000,000)                       | 37,750,000                         |

## **Directors' Interests in Transactions, Arrangements or Contracts**

No Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries and a Controlling Shareholder or any of its subsidiaries was a party subsisting during or at the end of the year ended 31 December 2020.

## **Directors' Interests in Competing Business**

During the year ended 31 December 2020 and up to the date of this Annual Report, none of the Directors had an interest in a business, which competes or may compete with the business of the Group under the Listing Rules.

## **Management Contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

## **Equity-linked Agreements**

Save for the Share Option Scheme as mentioned above, the Company has not entered into any equity-linked agreements during the year ended 31 December 2020.

## **Permitted Indemnity Provision**

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

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

## **Directors' Rights to Acquire Shares or Debentures**

Apart from the Share Option Scheme and the exercise of share options as mentioned above, at no time during the year ended 31 December 2020 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company and any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company nor exercised any such right.

## **Connected Transactions and Continuing Connected Transactions**

During the year ended 31 December 2020, the Group had not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of the Listing Rules.

# REPORT OF THE DIRECTORS

## Related Party Transactions

Details of the related party transactions undertaken by the Group during the year ended 31 December 2020 are set out in note 34 to the consolidated financial statements. These related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under the Listing Rules.

## Subsequent Events

Save as disclosed in this Annual Report, there were no significant subsequent events after the reporting period of the Group.

## Sufficiency of Public Float

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

## Auditor

The consolidated financial statements for the year ended 31 December 2020 of the Group have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Choi Hung Nang**

*Chairman*

Hong Kong

30 March 2021

# SUSTAINABILITY HIGHLIGHTS

In the face of the global pandemic outbreak, the Group continues to strengthen its sustainability strategy and performance with a more environmentally friendly operation in the asphalt mixing plants, in order to create a healthy and sustainable society.

Although this was a challenging year, the Group did not stop taking part in different environmental initiatives such as partnering with Green Council and Friends of the Earth; obtaining green loans for the asphalt mixing recycling plants operation, mapping Sustainable Development Goals (SDGs) into the business operation, committing to sustainable procurement and enhancing engagement with stakeholders. The Group strives for further improvements to its sustainable development journey.

The theme of the Group's Sustainability Report this year is "Creating a healthy community, achieving a sustainable future". The Report will present its sustainability performance from responsible governance to green operation, demonstrate how the Group shoulders corporate social responsibility with stakeholder engagement and brings positive impacts to society under the pandemic.

## The sustainability performance is highlighted as follows:

### Safe Production

- OHSAS 1800:2007 Occupational Health and Safety Management certification
- Zero work fatality rate for 6 consecutive years

### Innovative and Green Manufacturing

- Application of geothermal heat pumps in the Research and Development Centre
- Upgrade water efficiency equipment to prevent water leakage
- Install new hazardous waste treatment facilities to improve hazardous waste management
- Monitor environmental performance by deploying industrial robots, smart meters, and computer numerical control
- Continuous replacement of more energy-efficient machines

### Staff Training

- 137 topics – 51 hours on safety and security, 98 hours on professional knowledge, 110 hours on management and operation

### Patents and Copyrights

- 130 registered patents – 4 invention patents, 1 design patents, 125 utility model patents
- 27 software copyrights

### Environmental Performance

- 10.16 tCO<sub>2</sub>e/RMB'M revenue
- 85% of waste recycled
- 17.04 MWh ('000)/RMB'M revenue

### Recognition and Awards

- 5 Years Plus Caring Company
- EcoChallenger
- Hong Kong Green Awards 2020 – Corporate Green Governance Award and Sustained Performance (5 years +)
- 5 Years+ EcoPioneer
- Several T50 Summit of World Construction Machinery Industry Awards

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

# INDEPENDENT AUDITOR'S REPORT



## TO THE SHAREHOLDERS OF D&G TECHNOLOGY HOLDING COMPANY LIMITED

*(incorporated in the Cayman Islands with limited liability)*

### Opinion

#### What we have audited

The consolidated financial statements of D&G Technology Holding Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 51 to 118, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### Basis for Opinion

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

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

#### Independence

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

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Recoverability of trade receivables
- Provision for slow-moving inventories

| Key Audit Matter  | How our audit addressed the Key Audit Matter   |
|---|--|
| <p><b>Recoverability of trade receivables</b></p> <p>Refer to Note 5(a) Recoverability of trade receivables and Note 21 Trade and bills receivables to the consolidated financial statements</p> <p>The Group's trade receivables are principally derived from its sales of asphalt mixing plants and spare parts, and operating lease income of asphalt mixing plants.</p> <p>As at 31 December 2020, the Group's gross trade receivables from third party customers amounted to RMB252 million. The Group is exposed to risk of impairment of trade receivables. As at 31 December 2020, the expected credit loss amounted to RMB60 million.</p> <p>Management exercised judgements on estimating the level of expected credit losses by assessing future cash flows of trade receivables including a probability weighted amount determined by evaluating a range of possible outcomes based on rolling historical credit loss experience by aging pattern, credit and settlement history, financial capability of its customers, recent settlements received and the current market situation, and applying them to the receivables held at year end.</p> <p>The impact of economic factors, both current and future, is considered in assessing the likelihood of recovery from customers.</p> <p>We focused on this area because provision for impairment charge may have significant impact on the Group's consolidated statement of profit or loss for the year. Significant judgements and estimations are involved in determining the recoverability of trade receivables and the adequacy of impairment provision.</p> | <p>Our procedures in relation to trade receivables included:</p> <ul style="list-style-type: none"><li>• Understanding the management's internal controls over the impairment assessment process and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors, in particular those over the identification of receivables with different credit risk characteristics and the calculation of provision;</li><li>• Testing controls over the billing and collection cycle of the Group;</li><li>• Testing the trade receivables ageing analysis used to assess the recoverability of receivables;</li><li>• Assessing the appropriateness of the credit loss provisioning methodologies used by the Group;</li><li>• Assessing the estimates used to determine the expected credit losses by considering cash collection performance against historical trends;</li><li>• Reviewing minutes of the board of directors' meetings relating to the recoverability of trade receivables; and</li><li>• Discussing with management to understand the nature and the judgment involved in estimating the expected credit loss provision on trade receivables and corroborating with correspondence with the customers.</li></ul> <p>Based on the work performed, we found that management's assessments of the recoverability of trade receivables are supported by available evidence.</p> |

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters (Continued)

| Key Audit Matter   | How our audit addressed the Key Audit Matter   |
|--|--|
| <b>Provision for slow-moving inventories</b>   |  |
| <i>Refer to Note 5(b) Provision for slow-moving inventories and Note 20 Inventories to the consolidated financial statements</i>   | Our procedures in relation to inventories included:  |
| At 31 December 2020, the carrying value of the Group's inventories amounted to RMB231 million, which represented approximately 25% of the Group's total assets. The cost of inventories may not be recoverable if they are aged and damaged, or become obsolete, or if their selling prices have declined. | <ul style="list-style-type: none"><li>• Understanding and validating the control procedures performed by management and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors, including its periodic review on inventory obsolescence.</li></ul>  |
| Management applied a provision methodology for slow-moving inventories based on inventory ageing profiles, historical utilisation rates and committed sales orders and made general provision for long aged inventories and specific provision on inventories identified as not utilisable.                | <ul style="list-style-type: none"><li>• Observing management's inventory counts to identify whether there are any damaged or obsolete inventories.</li></ul>   |
| We focused on this area due to the magnitude of the inventory balances to the financial position of the Group. Significant judgements and estimations are involved in determining the adequacy of provision for slow-moving inventories.   | <ul style="list-style-type: none"><li>• Testing on a sample basis the accuracy of the ageing profile of individual inventory item by checking to the relevant good receipt documents.</li></ul>  |
|  | <ul style="list-style-type: none"><li>• Testing on a sample basis the subsequent usage or sales of selected inventory items, obtained through the usage or sales reports generated during the year and subsequent to the year end as a basis to identify inventory obsolescence. Where there are no subsequent usage or sales of the respective items during the year or after year end, we discussed with management their assessment on estimated future utilisation, corroborated explanations with the inventory ageing, sales orders and marketability of the finished goods.</li></ul> |
|  | <ul style="list-style-type: none"><li>• Evaluating management's basis for the general and specific inventory provision, the appropriateness of management's provision methodology and the outcome of management's estimations, analysis made by management and methodology applied to identify inventories that were not usable.</li></ul>   |
|  | Based on the work performed, we found that management's assessment on provision for obsolete or slow moving inventories as at 31 December 2020 is supported by available evidence.   |

# INDEPENDENT AUDITOR'S REPORT

## Other Information

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

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

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

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

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

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 30 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

|  | Note  | 2020<br>RMB'000  | 2019<br>RMB'000 |
|--|-------|------------------|-----------------|
| <b>Revenue</b>   | 6     | <b>378,929</b>   | 446,426         |
| Cost of sales  | 8     | <b>(300,932)</b> | (358,697)       |
| <b>Gross profit</b>  |       | <b>77,997</b>    | 87,729          |
| Other income and other gains/(losses), net                               | 7     | <b>7,846</b>     | (359)           |
| Distribution costs   | 8     | <b>(73,486)</b>  | (84,764)        |
| Administrative expenses  | 8     | <b>(59,570)</b>  | (75,302)        |
| Net reversal of impairment losses on financial assets                    | 8     | <b>25,945</b>    | 34,768          |
| <b>Operating loss</b>  |       | <b>(21,268)</b>  | (37,928)        |
| Finance income, net  | 10    | <b>10,022</b>    | 8,853           |
| Share of profit of associates  | 17(a) | <b>2,746</b>     | 2,164           |
| Share of profit of a joint venture                                       | 17(b) | <b>455</b>       | –               |
| <b>Loss before income tax</b>  |       | <b>(8,045)</b>   | (26,911)        |
| Income tax expense   | 11    | <b>(9,199)</b>   | (8,165)         |
| <b>Loss attributable to owners of the Company for the year</b>           |       | <b>(17,244)</b>  | (35,076)        |
| <b>Loss per share attributable to owners of the Company for the year</b> |       |                  |                 |
| – basic (RMB cents)  | 12    | <b>(2.77)</b>    | (5.64)          |
| – diluted (RMB cents)  | 12    | <b>(2.77)</b>    | (5.64)          |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| <b>Loss for the year</b>   | <b>(17,244)</b> | (35,076)        |
| <b>Other comprehensive loss:</b>   |                 |                 |
| <i>Item that may be reclassified to profit or loss:</i>                            |                 |                 |
| Currency translation differences   | <b>(3,519)</b>  | (542)           |
| <b>Other comprehensive loss for the year, net of tax</b>                           | <b>(3,519)</b>  | (542)           |
| <b>Total comprehensive loss attributable to owners of the Company for the year</b> | <b>(20,763)</b> | (35,618)        |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

|  | Note  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-------|-----------------|-----------------|
| <b>ASSETS</b>  |       |                 |                 |
| <b>Non-current assets</b>                            |       |                 |                 |
| Property, plant and equipment                        | 13    | 127,298         | 165,245         |
| Intangible assets                                    | 15    | 2,680           | 3,809           |
| Investment in associates                             | 17(a) | 56,759          | 54,883          |
| Investment in a joint venture                        | 17(b) | 1,825           | –               |
| Amount due from an associate                         | 34(b) | –               | 4,670           |
| Amount due from a joint venture                      | 34(b) | 546             | –               |
| Deposits   | 22    | –               | 800             |
| Deferred tax assets                                  | 26    | 12,342          | 18,672          |
| Financial asset at fair value through profit or loss | 19    | 20,000          | –               |
| <b>Total non-current assets</b>                      |       | <b>221,450</b>  | 248,079         |
| <b>Current assets</b>                                |       |                 |                 |
| Inventories  | 20    | 231,004         | 271,381         |
| Contract assets                                      | 6     | –               | 1,514           |
| Trade and bills receivables                          | 21    | 189,634         | 226,885         |
| Amount due from an associate                         | 34(b) | –               | 5,058           |
| Amount due from a joint venture                      | 34(b) | 4,416           | –               |
| Prepayments, deposits and other receivables          | 22    | 38,835          | 36,375          |
| Pledged bank deposits                                | 23    | 49,011          | 47,413          |
| Cash and cash equivalents                            | 23    | 188,778         | 94,912          |
| <b>Total current assets</b>                          |       | <b>701,678</b>  | 683,538         |
| <b>Total assets</b>                                  |       | <b>923,128</b>  | 931,617         |
| <b>EQUITY</b>  |       |                 |                 |
| <b>Equity attributable to owners of the Company</b>  |       |                 |                 |
| Share capital  | 27    | 4,912           | 4,912           |
| Other reserves                                       |       | 567,538         | 571,681         |
| Retained earnings                                    |       | 74,766          | 90,294          |
| <b>Total equity</b>                                  |       | <b>647,216</b>  | 666,887         |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

|                                      | Note  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--------------------------------------|-------|-----------------|-----------------|
| <b>LIABILITIES</b>                   |       |                 |                 |
| <b>Non-current liabilities</b>       |       |                 |                 |
| Borrowings                           | 24    | –               | 785             |
| Lease liabilities                    | 14    | <b>2,257</b>    | 114             |
| Deferred tax liabilities             | 26    | <b>4,500</b>    | 3,500           |
| <b>Total non-current liabilities</b> |       | <b>6,757</b>    | 4,399           |
| <b>Current liabilities</b>           |       |                 |                 |
| Borrowings                           | 24    | <b>31,145</b>   | 76,766          |
| Trade and other payables             | 25    | <b>161,043</b>  | 148,991         |
| Contract liabilities                 | 25    | <b>73,774</b>   | 33,044          |
| Lease liabilities                    | 14    | <b>1,265</b>    | 635             |
| Amount due to a joint venture        | 34(b) | <b>500</b>      | –               |
| Income tax payable                   |       | <b>1,428</b>    | 895             |
| <b>Total current liabilities</b>     |       | <b>269,155</b>  | 260,331         |
| <b>Total liabilities</b>             |       | <b>275,912</b>  | 264,730         |
| <b>Total equity and liabilities</b>  |       | <b>923,128</b>  | 931,617         |

The consolidated financial statements on pages 51 to 118 were approved by the Board of Directors on 30 March 2021 and signed on its behalf.

**Choi Hung Nang**  
Director

**Choi Kwan Li, Glendy**  
Director

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

|   | Attributable to owners of the Company |                          |                            |  |   |                             |                              | Total equity<br>RMB'000 |
|---|---------------------------------------|--------------------------|----------------------------|--|---|-----------------------------|------------------------------|-------------------------|
|   | Share capital<br>RMB'000              | Share premium<br>RMB'000 | Capital reserve<br>RMB'000 | Share-based payment reserve<br>RMB'000 | Statutory reserve<br>RMB'000<br>(Note 29) | Exchange reserve<br>RMB'000 | Retained earnings<br>RMB'000 |                         |
| <b>Balance at 1 January 2019</b>  | 4,897                                 | 419,617                  | 65,290                     | 9,404                                  | 44,395                                    | 27,770                      | 125,791                      | 697,164                 |
| Change in accounting policies   | -                                     | -                        | -                          | -                                      | -   | -                           | (201)                        | (201)                   |
| <b>Balance at 1 January 2019, restated</b>                                      | 4,897                                 | 419,617                  | 65,290                     | 9,404                                  | 44,395                                    | 27,770                      | 125,590                      | 696,963                 |
| <b>Comprehensive loss:</b>  |                                       |                          |                            |  |   |                             |                              |                         |
| Loss for the year   | -                                     | -                        | -                          | -                                      | -   | -                           | (35,076)                     | (35,076)                |
| <b>Other comprehensive loss:</b>  |                                       |                          |                            |  |   |                             |                              |                         |
| Currency translation differences  | -                                     | -                        | -                          | -                                      | -   | (542)                       | -                            | (542)                   |
| <b>Total comprehensive loss</b>   | -                                     | -                        | -                          | -                                      | -   | (542)                       | (35,076)                     | (35,618)                |
| <b>Transactions with owners in their capacity as owners</b>                     |                                       |                          |                            |  |   |                             |                              |                         |
| Employee share option scheme – grant of share options                           | -                                     | -                        | -                          | 4,245                                  | -   | -                           | -                            | 4,245                   |
| Employee share option scheme – exercise of share options (Note 28)              | 15                                    | 1,282                    | -                          | -                                      | -   | -                           | -                            | 1,297                   |
| Employee share option scheme – lapse of share options                           | -                                     | -                        | -                          | (436)                                  | -   | -                           | 436                          | -                       |
| Transfer to statutory reserve   | -                                     | -                        | -                          | -                                      | 656                                       | -                           | (656)                        | -                       |
| <b>Total transactions with owners</b>   | 15                                    | 1,282                    | -                          | 3,809                                  | 656                                       | -                           | (220)                        | 5,542                   |
| <b>Balance at 31 December 2019</b>  | 4,912                                 | 420,899                  | 65,290                     | 13,213                                 | 45,051                                    | 27,228                      | 90,294                       | 666,887                 |
| <b>Balance at 1 January 2020</b>  | <b>4,912</b>                          | <b>420,899</b>           | <b>65,290</b>              | <b>13,213</b>                          | <b>45,051</b>                             | <b>27,228</b>               | <b>90,294</b>                | <b>666,887</b>          |
| <b>Comprehensive loss:</b>  |                                       |                          |                            |  |   |                             |                              |                         |
| Loss for the year   | -                                     | -                        | -                          | -                                      | -   | -                           | (17,244)                     | (17,244)                |
| <b>Other comprehensive income:</b>  |                                       |                          |                            |  |   |                             |                              |                         |
| Currency translation differences  | -                                     | -                        | -                          | -                                      | -   | (3,519)                     | -                            | (3,519)                 |
| <b>Total comprehensive loss</b>   | -                                     | -                        | -                          | -                                      | -   | (3,519)                     | (17,244)                     | (20,763)                |
| <b>Transactions with owners in their capacity as owners</b>                     |                                       |                          |                            |  |   |                             |                              |                         |
| Employee share option scheme – grant of share options                           | -                                     | -                        | -                          | 1,092                                  | -   | -                           | -                            | 1,092                   |
| Employee share option scheme – lapse of share options                           | -                                     | -                        | -                          | (884)                                  | -   | -                           | 884                          | -                       |
| Transfer to statutory reserve   | -                                     | -                        | -                          | -                                      | 449                                       | -                           | (449)                        | -                       |
| Transfer from statutory reserve arising from the deregistration of a subsidiary | -                                     | -                        | -                          | -                                      | (1,281)                                   | -                           | 1,281                        | -                       |
| <b>Total transactions with owners</b>   | -                                     | -                        | -                          | 208                                    | (832)                                     | -                           | 1,716                        | 1,092                   |
| <b>Balance at 31 December 2020</b>  | <b>4,912</b>                          | <b>420,899</b>           | <b>65,290</b>              | <b>13,421</b>                          | <b>44,219</b>                             | <b>23,709</b>               | <b>74,766</b>                | <b>647,216</b>          |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

|  | Note  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-------|-----------------|-----------------|
| <b>Cash flows from operating activities</b>                              |       |                 |                 |
| Cash generated from operations   | 31(a) | <b>127,855</b>  | 29,147          |
| Income tax (paid)/refunded   |       | <b>(1,335)</b>  | 756             |
| Net cash generated from operating activities                             |       | <b>126,520</b>  | 29,903          |
| <b>Cash flows from investing activities</b>                              |       |                 |                 |
| Payments for purchases of intangible assets                              |       | –               | (1,769)         |
| Payments for purchases of property, plant and equipment                  | 13    | <b>(8,835)</b>  | (14,505)        |
| Payment for a financial asset at fair value through profit or loss       | 19    | <b>(20,000)</b> | –               |
| Proceeds from disposal of property, plant and equipment                  | 31(c) | <b>36,715</b>   | 7,635           |
| Capital injection to an associate  | 17(a) | –               | (1,000)         |
| Interest received  | 10    | <b>1,800</b>    | 1,736           |
| Net cash generated from/(used in) investing activities                   |       | <b>9,680</b>    | (7,903)         |
| <b>Cash flows from financing activities</b>                              |       |                 |                 |
| Issuance of shares in respect of exercise of share options               |       | –               | 1,297           |
| Proceeds from borrowings   | 31(b) | <b>38,703</b>   | 72,498          |
| Repayments of borrowings   | 31(b) | <b>(83,447)</b> | (55,991)        |
| Principal elements of lease payments                                     | 31(b) | <b>(1,345)</b>  | (1,669)         |
| Release of/(Addition of) restricted bank deposits pledged for borrowings |       | <b>8,977</b>    | (1,858)         |
| Interest paid  | 10    | <b>(3,189)</b>  | (5,316)         |
| Net cash (used in)/generated from financing activities                   |       | <b>(40,301)</b> | 8,961           |
| Net increase in cash and cash equivalents                                |       | <b>95,899</b>   | 30,961          |
| Cash and cash equivalents at beginning of the year                       |       | <b>94,912</b>   | 64,407          |
| Exchange loss on cash and cash equivalents                               |       | <b>(2,033)</b>  | (456)           |
| Cash and cash equivalents at end of the year                             |       | <b>188,778</b>  | 94,912          |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 General information

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

The Company and its subsidiaries (together, the “Group”) are principally engaged in manufacturing, distribution, research and development and operating lease of asphalt mixing plants and sales of spare parts and modified equipment.

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 27 May 2015.

These consolidated financial statements are presented in thousands of Renminbi (“RMB’000”), unless otherwise stated.

## 2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of D&G Technology Holding Company Limited and its subsidiaries.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention, except for the financial asset at fair value through profit or loss.

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

#### (a) *New standards, amendments to existing standards and interpretation 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 2020.

| Standards   | Subject  |
|---|--|
| HKAS 1 and HKAS 8 (Amendments)                    | Definition of Material                                 |
| HKFRS 3 (Amendments)                              | Definition of a Business                               |
| HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)         | Hedge accounting                                       |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting   |
| Annual Improvements Project                       | Annual Improvements to HKFRS Standards 2018-2020 Cycle |

The Group has also elected to adopt the following amendment early:

|                       |                                   |
|-----------------------|-----------------------------------|
| HKFRS 16 (Amendments) | Covid-19-Related Rent Concessions |
|-----------------------|-----------------------------------|

The amendments listed above did not have any impact on the amounts recognised in the current period and are not expected to significantly affect the future periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

#### (b) *New standards and amendments to existing standards not yet adopted*

The following new standards and amendments to existing standards have been issued but are not yet effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:

| Standards  | Subject   | Effective for the accounting period beginning on or after |
|--|---|---|
| HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments) | Interest Rate Benchmark Reform  | 1 January 2021  |
| HKAS 16 (Amendments)   | Property, Plant and Equipment: Proceeds before intended use                           | 1 January 2022  |
| HKAS 37 (Amendments)   | Onerous Contracts – Cost of Fulfilling a Contract                                     | 1 January 2022  |
| HKFRS 3 (Amendments)   | Reference to the Conceptual Framework   | 1 January 2022  |
| Annual Improvements to HKFRS Standards 2018-2020             | Annual Improvements to HKFRS Standards 2018-2020 Cycle                                | 1 January 2022  |
| HKAS 1 (Amendments)  | Classification of Liabilities as Current or Non-current                               | 1 January 2023  |
| HKFRS 17 (New standard)                                      | Insurance Contracts   | 1 January 2023  |
| HKFRS 10 and HKAS 28 (Amendments)                            | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined  |

The above new standards and amendments to existing standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions. The Group intends to adopt the above new standards and amendments to existing standards when they become effective.

### 2.2 Principles of consolidation and equity accounting

#### 2.2.1 *Subsidiaries*

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

The acquisition method of accounting is used to account for business combinations by the Group.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.2 Principles of consolidation and equity accounting (Continued)

#### 2.2.2 Associates

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

#### 2.2.3 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has a joint venture.

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet.

#### 2.2.4 Equity method

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

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

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

The carrying amount of equity-accounted investment is tested for impairment in accordance with the policy described in Note 2.9.

#### 2.2.5 Changes in ownership interests

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.3 Separate financial statements

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

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

### 2.4 Segment reporting

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

### 2.5 Foreign currency translation

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

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

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

#### (c) Group companies

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.5 Foreign currency translation (Continued)

#### (c) Group companies (Continued)

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

#### (d) Disposal of foreign operation and partial disposal

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

### 2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land use right is classified as a sub-class of right-of-use assets and presented within property, plant and equipment.

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

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

|                                |  |
|--------------------------------|--|
| Plant and buildings            | 10 – 20 years  |
| Leasehold improvements         | over the shorter of the unexpired term of the lease and 5 years  |
| Machinery                      | 3 – 10 years   |
| Office equipment and furniture | 4 – 10 years   |
| Motor vehicles                 | 5 years  |
| Land use right                 | over the shorter of the unexpired term of the lease and 50 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9). Gains or losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "other income and other gains/(losses), net" in the consolidated statement of profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.7 Construction-in-progress

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

### 2.8 Intangible assets

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

### 2.9 Impairment of non-financial assets

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

### 2.10 Financial assets

#### 2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### 2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.10 Financial assets (Continued)

#### 2.10.3 Measurement of financial assets

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), net together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses), net in the period in which it arises.

#### 2.10.4 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost and FVPL. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

### 2.11 Offsetting financial instruments

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

### 2.12 Inventories

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

### 2.13 Trade and other receivables

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.13 Trade and other receivables (Continued)

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less provision for impairment. See Note 2.10.4 and Note 4.1(b) for a description of the Group's impairment policies.

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

### 2.14 Cash and cash equivalents

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

### 2.15 Share capital

Ordinary shares are classified as equity.

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

### 2.16 Trade and other payables

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

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

### 2.17 Financial guarantee contracts

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

### 2.18 Borrowings

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.18 Borrowings (Continued)

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

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

### 2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

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

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

### 2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

#### (b) Deferred income tax

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

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.20 Current and deferred income tax (Continued)

#### (b) *Deferred income tax (Continued)*

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### 2.21 Employee benefits

#### (a) *Defined contribution schemes*

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

#### (b) *Performance bonus*

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

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

#### (c) *Employee leave entitlements*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.22 Equity-settled share-based payment transactions

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

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

The total expense is recognised over the vesting period, which is the period over which all of the specific vesting conditions are to be satisfied.

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

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

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

### 2.23 Provisions

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.24 Contingent liabilities

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

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

### 2.25 Revenue recognition

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

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

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

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

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

#### (i) *Sale of goods*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.25 Revenue recognition (Continued)

#### (ii) *Rental income from operating leases*

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

#### (iii) *Financing components*

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

### 2.26 Loss per share

#### (i) *Basic loss per share*

Basic loss per share is calculated by dividing:

- the loss attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

#### (ii) *Diluted loss per share*

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### 2.27 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets.

Interest income on financial assets at amortised cost and financial assets at fair value through other comprehensive income calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.28 Government grants

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

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

### 2.29 Leases

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.

Contracts may contain both lease and non-lease components. For leases of real estate for which the Group is a lessee, the Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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 other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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 Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated statement of 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

### 2.29 Leases (Continued)

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.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 6). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature.

### 2.30 Dividend distribution

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

## 3 Changes in accounting policies

The group has early adopted Amendment to HKFRS 16 Covid-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b. any reduction in lease payments affects only payments due on or before 30 June 2021; and c. there is no substantive change to other terms and conditions of the lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 Financial risk management

### 4.1 Financial risk factors

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

#### (a) Market risk

##### (i) Currency risk

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

As at 31 December 2020, certain RMB denominated cash and deposits were held by Hong Kong group entities, the functional currency of which is HK\$ (2019: Same). If RMB had strengthened/weakened by 5% (2019: Same) against HK\$ with all other variables held constant, the post-tax loss (2019: Same) for the year would have been RMB56,000 lower/higher (2019: RMB339,000 lower/higher), mainly as a result of foreign exchange gains/losses on these RMB denominated cash and deposits.

The currency risk on assets and liabilities denominated in USD which were mainly held by Hong Kong group entities, the functional currency of which is HK\$, is considered to be minimal as HK\$ is currently pegged to USD (2019: Same).

The currency risk on assets and liabilities denominated in EUR, PKR and SGD is considered to be minimal as the Group had limited EUR, PKR and SGD denominated assets and liabilities (2019: Same).

The currency risk on assets and liabilities denominated in HK\$ which were held by PRC group companies, the functional currency of which is RMB, is considered to be minimal as these group companies had limited HK\$ denominated assets and liabilities (2019: Same).

##### (ii) Cash flow interest rate risk

As at 31 December 2020, all bank borrowings of the Group were at floating rates. As at 31 December 2019, except for bank borrowings of RMB20,293,000, which were at fixed rates, the remaining borrowings of the Group were at floating rates. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates.

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

As at 31 December 2020, if interest rates on borrowings had been 100 basis points higher/lower (2019: Same) with all other variables held constant, post-tax loss (2019: Same) for the year would have been RMB263,000 higher/lower (2019: RMB478,000 higher/lower), mainly as a result of higher/lower interest expense on floating rate borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 Financial risk management (Continued)

### 4.1 Financial risk factors (Continued)

#### (b) Credit risk

Credit risk of the Group mainly arises from deposits with banks and financial institutions, as well as credit exposures to customers such as trade receivables and other receivables.

The carrying amount of these balances in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets.

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

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

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

As at 31 December 2020, the top 5 trade receivable balances account for 23% (2019: 33%) of the Group's total year end gross trade receivable balances.

Impairment of financial assets

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

- Cash and cash equivalents
- Pledged bank deposits
- Trade receivables
- Other receivables and deposits
- Amount due from an associate
- Amount due from a joint venture

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

#### Trade receivables

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

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 Financial risk management (Continued)

### 4.1 Financial risk factors (Continued)

#### (b) Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables (Continued)

Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining trade receivables based on shared credit risk characteristics and days past due and collectively assessed for likelihood of recovery, taking into account the customers' past settlement pattern, existing market conditions as well as forward looking estimates at the end of each reporting period.

The following table presents the balances of gross carrying amounts and the loss allowance in respect of trade receivables assessed on individual and collective basis as at 31 December 2020 and 2019:

|                               | Gross carrying<br>amount<br>RMB'000 | Weighted average<br>expected credit<br>loss rates | Loss<br>allowance<br>RMB'000 |
|-------------------------------|-------------------------------------|---|------------------------------|
| <b>As at 31 December 2020</b> |                                     |   |                              |
| Individual basis              | <b>16,917</b>                       | <b>100%</b>                                       | <b>16,917</b>                |
| Collective basis              |                                     |   |                              |
| Within 1 year                 | <b>159,588</b>                      | <b>3%</b>   | <b>4,652</b>                 |
| 1 to 2 years                  | <b>38,064</b>                       | <b>23%</b>  | <b>8,890</b>                 |
| 2 to 3 years                  | <b>16,774</b>                       | <b>57%</b>  | <b>9,517</b>                 |
| Over 3 years                  | <b>20,553</b>                       | <b>99%</b>  | <b>20,298</b>                |
|                               | <b>251,896</b>                      |   | <b>60,274</b>                |
| <b>As at 31 December 2019</b> |                                     |   |                              |
| Individual basis              | 28,636                              | 100%  | 28,636                       |
| Collective basis              |                                     |   |                              |
| Within 1 year                 | 165,272                             | 5%  | 8,586                        |
| 1 to 2 years                  | 60,695                              | 16%   | 9,754                        |
| 2 to 3 years                  | 31,083                              | 75%   | 23,227                       |
| Over 3 years                  | 20,818                              | 77%   | 16,126                       |
|                               | 306,504                             |   | 86,329                       |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 Financial risk management (Continued)

### 4.1 Financial risk factors (Continued)

#### (b) Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables (Continued)

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

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| Opening loss allowance as at 1 January   | 86,329          | 121,097         |
| Decrease in loss allowance recognised in consolidated profit or loss during the year | (26,055)        | (34,768)        |
| At 31 December   | 60,274          | 86,329          |

Impairment losses on trade receivables are presented as net reversal of/(provision for) impairment losses on financial assets within operating profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost

For other financial assets at amortised cost including deposits, other receivables, bills receivables and amount due from an associate and a joint venture, management considers that their credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The credit risk on these financial assets is assessed by management to be RMB110,000 (2019: Nil) after considering the financial conditions of these entities. Accordingly, the impairment provision is determined based on the 12-month expected credit loss which is zero.

#### (c) Liquidity risk

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 Financial risk management (Continued)

### 4.1 Financial risk factors (Continued)

#### (c) Liquidity risk (Continued)

|                                 | At 31 December 2020                   |   |                  | Carrying amount on consolidated statement of financial position<br>RMB'000 |
|---------------------------------|---------------------------------------|---|------------------|--|
|                                 | Contractual undiscounted cash outflow |   |                  |  |
|                                 | Within 1 year or on demand<br>RMB'000 | More than 1 year but less than 5 years<br>RMB'000 | Total<br>RMB'000 |  |
| Borrowings                      | 19,946                                | 12,448  | 32,394           | 31,145   |
| Lease liabilities               | 1,415                                 | 2,434   | 3,849            | 3,522  |
| Amount due to a joint venture   | 500                                   | –   | 500              | 500  |
| Trade and other payables (Note) | 153,777                               | –   | 153,777          | 153,777  |
|                                 | <b>175,638</b>                        | <b>14,882</b>                                     | <b>190,520</b>   | <b>188,944</b>   |

  

|                                 | At 31 December 2019                   |   |                  | Carrying amount on consolidated statement of financial position<br>RMB'000 |
|---------------------------------|---------------------------------------|---|------------------|--|
|                                 | Contractual undiscounted cash outflow |   |                  |  |
|                                 | Within 1 year or on demand<br>RMB'000 | More than 1 year but less than 5 years<br>RMB'000 | Total<br>RMB'000 |  |
| Borrowings                      | 77,012                                | 792   | 77,804           | 77,551   |
| Lease liabilities               | 646                                   | 116   | 762              | 749  |
| Trade and other payables (Note) | 142,241                               | –   | 142,241          | 142,241  |
|                                 | 219,899                               | 908   | 220,807          | 220,541  |

Note: The balance presented above excludes accrued salaries, contract liabilities and other provisions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 Financial risk management (Continued)

### 4.1 Financial risk factors (Continued)

#### (c) Liquidity risk (Continued)

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

|                       | 2020<br>RMB'000 | 2019<br>RMB'000 |
|-----------------------|-----------------|-----------------|
| Within 1 year         | 19,122          | 66,798          |
| Between 1 and 2 years | 4,395           | 1,719           |
| Between 2 and 5 years | 7,628           | 9,034           |
|                       | <b>31,145</b>   | 77,551          |

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

### 4.2 Capital risk management

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

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

### 4.3 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including trade and bills receivables, prepayments, deposits and other receivables, amount due from an associate, amount due from a joint venture, cash and cash equivalents, pledged bank deposits, trade and other payables, lease liabilities, amount due to a joint venture, borrowings and financial assets at fair value through profit or loss approximate their fair values.

### 4.4 Offsetting financial assets and financial liabilities

No financial assets and financial liabilities were subject to offsetting, enforceable master netting arrangements and similar agreements as at 31 December 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5 Critical accounting estimates and judgments

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

### (a) Recoverability of trade receivables

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

### (b) Provision for slow-moving inventories

The Group estimates the provision for inventory based on inventory ageing profiles, historical inventory utilisation rates and committed sales orders and made specific and general provision for slow-moving inventories. Provision for inventory is recorded where events or changes in circumstances indicate that the carrying cost of inventories will not be fully realised. The quantification of inventory provision requires the use of estimates and judgement. Where the outcomes are different from the original estimates, such differences will impact the carrying value of inventories and provision for inventory in the years in which such estimates have been changed.

### (c) Useful lives of property, plant and equipment and intangible assets

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

### (d) Impairment of property, plant and equipment and intangible assets

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5 Critical accounting estimates and judgments (Continued)

### (e) Current and deferred income tax provision

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

Deferred tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets in the period in which such estimates have been changed.

## 6 Segment information

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

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

Revenue consists of the following:

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| <b>Revenue from contracts with customers within the scope of HKFRS15</b> |                 |                 |
| Sales of asphalt mixing plants   | 324,124         | 376,590         |
| Sales of spare parts and modified equipment                              | 49,055          | 40,597          |
|  | <b>373,179</b>  | 417,187         |
| <b>Revenue from other sources</b>  |                 |                 |
| Operating lease income of asphalt mixing plants                          | 5,750           | 29,239          |
|  | <b>378,929</b>  | 446,426         |
| Revenue from contracts with customers recognised at a point in time      | <b>373,179</b>  | 417,187         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 Segment information (Continued)

### (a) Revenue from external customers by country

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| People's Republic of China (the "PRC") | <b>327,035</b>  | 406,603         |
| Outside the PRC                        | <b>51,894</b>   | 39,823          |
|  | <b>378,929</b>  | 446,426         |

### (b) Non-current assets

The geographical location of the non-current assets, excluding deferred tax assets, based on the physical location of the assets is analysed as follows:

|                 | 2020<br>RMB'000 | 2019<br>RMB'000 |
|-----------------|-----------------|-----------------|
| The PRC         | <b>161,224</b>  | 175,396         |
| Outside the PRC | <b>47,884</b>   | 54,011          |
|                 | <b>209,108</b>  | 229,407         |

### (c) Information about major customer

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

|            | 2020<br>RMB'000 | 2019<br>RMB'000 |
|------------|-----------------|-----------------|
| Customer A | <b>7,876</b>    | 45,338          |

No customer with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2020. The amount for the year ended 31 December 2020 shown above is for comparative purpose only.

Except for Customer A, there were no other customers individually accounted for more than 10% of the Group's revenue for the year ended 31 December 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 Segment information (Continued)

### (d) Contract liabilities

The Group recognised the following revenue related contract liabilities as at 31 December 2020:

|                      | 2020<br>RMB'000 | 2019<br>RMB'000 |
|----------------------|-----------------|-----------------|
| Contract liabilities | <b>73,774</b>   | 33,044          |

#### (i) Significant change in contract liabilities

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

#### (ii) Unsatisfied performance obligations

During the year ended 31 December 2020, all brought-forward contract liabilities at the beginning of the financial year were fully recognised as revenue (2019: Same).

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

As at 31 December 2020, contract assets of RMB1,514,000 was recognised, representing incremental costs to obtain or fulfil a contract.

## 7 Other income and other gains/(losses), net

|   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|-----------------|-----------------|
| <b>Other income</b>   |                 |                 |
| Government grants (Note)  | <b>2,298</b>    | 940             |
| Interest income from a financial asset at fair value through profit or loss | <b>94</b>       | –               |
| Others  | <b>489</b>      | –               |
|   | <b>2,881</b>    | 940             |
| <b>Other gains/(losses), net</b>  |                 |                 |
| Net gain/(loss) on disposal of property, plant and equipment                | <b>5,701</b>    | (478)           |
| Gain on early termination of leases   | –               | 36              |
| Net foreign exchange loss   | <b>(1,133)</b>  | (700)           |
| Others  | <b>397</b>      | (157)           |
|   | <b>4,965</b>    | (1,299)         |
|   | <b>7,846</b>    | (359)           |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 Expenses by nature

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| Cost of inventories (Note 20)  | 240,459         | 290,391         |
| Cost of operating lease of asphalt mixing plants   | 2,080           | 11,065          |
| Freight and transportation expenses  | 17,547          | 15,433          |
| Employee benefit expenses (including directors' emoluments) (Note 9)   | 68,791          | 80,818          |
| Depreciation and amortisation (Notes 13 to 15)   |                 |                 |
| – Property, plant and equipment used for operating leases  | 4,989           | 9,727           |
| – Other property, plant and equipment  | 8,733           | 11,699          |
| – Intangible assets  | 1,120           | 874             |
| Reversal of impairment of trade receivables, net (Note 4.1(b))   | (26,055)        | (34,768)        |
| Provision for impairment of other receivables (Note 22)  | 110             | –               |
| Provision for impairment of inventories (Note 20)  | 32,977          | 27,441          |
| Write-off of property, plant and equipment (Note 13)   | –               | 489             |
| Provision for impairment of property, plant and equipment (Note 13)  | 3,677           | 5,870           |
| Commission to distributors   | 17,147          | 28,440          |
| Research and development costs   | 13,230          | 17,986          |
| Travelling expenses  | 2,368           | 4,439           |
| Marketing expenses   | 3,671           | 3,891           |
| Repair and maintenance expenses  | 2,584           | 2,565           |
| Auditor's remunerations  |                 |                 |
| – Audit services   | 1,552           | 1,858           |
| – Non-audit services   | 233             | 79              |
| Other expenses   | 12,830          | 5,698           |
| <b>Total cost of sales, distribution costs and administrative expenses and net reversal of impairment losses on financial assets</b> | <b>408,043</b>  | <b>483,995</b>  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9 Employee benefit expenses (including directors' emoluments)

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

|   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|-----------------|-----------------|
| Wages, salaries and allowances                    | 60,860          | 64,428          |
| Pension costs – defined contribution plans (Note) | 6,839           | 12,145          |
| Share-based payment expenses                      | 1,092           | 4,245           |
|   | <b>68,791</b>   | 80,818          |

Note:

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

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

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

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included five (2019: four) directors whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining one senior management individual during the year ended 31 December 2019 are as follows:

|   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|-----------------|-----------------|
| Basic salaries, other allowances and benefits in kind | –               | 1,497           |
| Retirement scheme contributions                       | –               | 16              |
| Share-based payment expenses                          | –               | 390             |
|   | –               | 1,903           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10 Finance income, net

|   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|-----------------|-----------------|
| <b>Finance cost</b>   |                 |                 |
| Interest expenses on bank borrowings  | <b>(2,936)</b>  | (4,790)         |
| Interest expenses on lease liabilities  | <b>(80)</b>     | (71)            |
| Interest expense on other borrowing   | <b>(253)</b>    | (455)           |
|   | <b>(3,269)</b>  | (5,316)         |
| <b>Finance income</b>   |                 |                 |
| Interest income on bank deposits  | <b>1,440</b>    | 1,512           |
| Interest income from an associate (Note 34(a))  | <b>360</b>      | 380             |
| Unwinding discount interest on trade receivables not expected to be settled within one year | <b>11,491</b>   | 12,277          |
|   | <b>13,291</b>   | 14,169          |
| Finance income, net   | <b>10,022</b>   | 8,853           |

## 11 Income tax expense

### (a) Income tax expense

|   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|-----------------|-----------------|
| Current income tax:                     |                 |                 |
| – PRC corporate income tax              | <b>1,954</b>    | 1,545           |
| – (Over)/under provision in prior years | <b>(85)</b>     | 146             |
|   | <b>1,869</b>    | 1,691           |
| Deferred income tax (Note 26)           | <b>7,330</b>    | 6,474           |
|   | <b>9,199</b>    | 8,165           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 Income tax expense (Continued)

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

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| Loss before tax  | <b>(8,045)</b>  | (26,911)        |
| Notional tax on loss before tax, calculated at the rates applicable to the jurisdictions concerned (i) | <b>(1,055)</b>  | (2,940)         |
| Effect of preferential tax rate (ii)   | <b>1,479</b>    | 275             |
| Tax losses and other temporary differences for which no deferred tax asset was recognised              | <b>8,829</b>    | 6,647           |
| Income not subject to tax  | <b>(1,868)</b>  | (213)           |
| Tax effect of non-deductible expenses  | <b>1,387</b>    | 1,773           |
| Additional deduction for qualified research and development expenses (iii)                             | <b>(1,488)</b>  | (2,023)         |
| Withholding tax in respect of dividend declared by a subsidiary in the PRC (iv)                        | <b>1,000</b>    | 1,000           |
| Withholding tax charged on undistributed earnings of a subsidiary (iv)                                 | <b>1,000</b>    | 3,500           |
| (Over)/under provision in prior years  | <b>(85)</b>     | 146             |
|  | <b>9,199</b>    | 8,165           |

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

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

No provision for Hong Kong profits tax for the subsidiaries incorporated or operated in Hong Kong was made as the subsidiaries did not have assessable profits subject to Hong Kong profits tax (2019: Nil).

No provision for Singapore, India and Pakistan income tax was made for the subsidiaries incorporated in these countries, as the subsidiaries did not have assessable profits subject to Singapore, India and Pakistan income tax (2019: Nil).

The Group's PRC subsidiaries are subject to PRC corporate income tax rate of 25% (2019: 25%).

- (ii) A wholly-owned subsidiary of the Company, Langfang D&G, is qualified as a "high new technology enterprise" under the PRC corporate income tax law and relevant regulations and it is entitled to a preferential income tax rate of 15% (2019: 15%).

- (iii) Under the PRC corporate income tax law and relevant regulations, a 75% (2019: Same) additional tax deduction is allowed for qualified research and development expenses.

- (iv) The withholding tax rate was 5% on the remittance of dividend from the subsidiary in the PRC during the year and unremitted earnings of the subsidiary.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12 Loss per share

### (a) Basic

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

|   | 2020               | 2019        |
|---|--------------------|-------------|
| Loss attributable to owners of the Company (RMB'000)    | <b>(17,244)</b>    | (35,076)    |
| Weighted average number of ordinary shares in issue     | <b>621,958,000</b> | 621,489,000 |
| Basic loss per share (expressed in RMB cents per share) | <b>(2.77)</b>      | (5.64)      |

### (b) Diluted

Diluted loss per share for the years ended 31 December 2020 and 2019 were 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.

## 13 Property, plant and equipment

|  | Leasehold<br>land<br>RMB'000 | Land<br>use right<br>RMB'000 | Leased<br>properties<br>RMB'000 | Plant and<br>buildings<br>RMB'000 | Leasehold<br>Improvements<br>RMB'000 | Machinery<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Office<br>equipment<br>and furniture<br>RMB'000 | Construction<br>in progress<br>RMB'000 | Total<br>RMB'000 |
|--|------------------------------|------------------------------|---------------------------------|-----------------------------------|--------------------------------------|----------------------|------------------------------|---|--|------------------|
| <b>Year ended 31 December 2020</b>         |                              |                              |                                 |                                   |                                      |                      |                              |   |  |                  |
| Opening net book amount                    | 47,200                       | 4,835                        | 693                             | 57,128                            | 1,220                                | 51,771               | 82                           | 2,178   | 138                                    | 165,245          |
| Additions                                  | -                            | -                            | 4,066                           | -                                 | -                                    | 7,902                | 288                          | 610   | 35                                     | 12,901           |
| Disposals                                  | -                            | -                            | -                               | -                                 | -                                    | (30,247)             | (51)                         | (10)  | -                                      | (30,308)         |
| Impairment charge                          | -                            | -                            | -                               | -                                 | -                                    | (3,677)              | -                            | -   | -                                      | (3,677)          |
| Depreciation charge for the year           | (57)                         | (130)                        | (1,240)                         | (3,515)                           | (301)                                | (7,832)              | (3)                          | (644)   | -                                      | (13,722)         |
| Exchange differences                       | (2,740)                      | -                            | (28)                            | (194)                             | (56)                                 | (80)                 | -                            | (43)  | -                                      | (3,141)          |
| Closing net book amount                    | 44,403                       | 4,705                        | 3,491                           | 53,419                            | 863                                  | 17,837               | 316                          | 2,091   | 173                                    | 127,298          |
| <b>At 31 December 2020</b>                 |                              |                              |                                 |                                   |                                      |                      |                              |   |  |                  |
| Cost                                       | 44,611                       | 6,533                        | 6,778                           | 79,516                            | 1,804                                | 60,397               | 1,627                        | 7,581   | 173                                    | 209,020          |
| Accumulated depreciation and<br>impairment | (208)                        | (1,828)                      | (3,287)                         | (26,097)                          | (941)                                | (42,560)             | (1,311)                      | (5,490)   | -                                      | (81,722)         |
| Net book amount                            | 44,403                       | 4,705                        | 3,491                           | 53,419                            | 863                                  | 17,837               | 316                          | 2,091   | 173                                    | 127,298          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13 Property, plant and equipment (Continued)

|   | Leasehold<br>land<br>RMB'000 | Land<br>use right<br>RMB'000 | Leased<br>properties<br>RMB'000 | Plant and<br>buildings<br>RMB'000 | Leasehold<br>improvements<br>RMB'000 | Machinery<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Office<br>equipment<br>and furniture<br>RMB'000 | Construction<br>in progress<br>RMB'000 | Total<br>RMB'000 |
|---|------------------------------|------------------------------|---------------------------------|-----------------------------------|--------------------------------------|----------------------|------------------------------|---|--|------------------|
| <b>Year ended 31 December 2019</b>            |                              |                              |                                 |                                   |                                      |                      |                              |   |  |                  |
| Opening net book amount                       | 46,435                       | -                            | -                               | 47,634                            | 78                                   | 81,372               | 394                          | 2,451   | 11,133                                 | 189,497          |
| Adjustment for change in<br>accounting policy | -                            | 4,965                        | 2,070                           | -                                 | -                                    | -                    | -                            | -   | -                                      | 7,035            |
| <b>Restated opening net book amount</b>       | 46,435                       | 4,965                        | 2,070                           | 47,634                            | 78                                   | 81,372               | 394                          | 2,451   | 11,133                                 | 196,532          |
| Additions                                     | -                            | -                            | 463                             | 124                               | 1,496                                | 545                  | -                            | 402   | 11,938                                 | 14,968           |
| Disposals                                     | -                            | -                            | -                               | -                                 | -                                    | (19,047)             | -                            | -   | -                                      | (19,047)         |
| Write-off                                     | -                            | -                            | -                               | -                                 | -                                    | (477)                | (12)                         | -   | -                                      | (489)            |
| Early termination of a lease                  | -                            | -                            | (280)                           | -                                 | -                                    | -                    | -                            | -   | -                                      | (280)            |
| Transfer from construction in progress        | -                            | -                            | -                               | 12,873                            | -                                    | 10,060               | -                            | -   | (22,933)                               | -                |
| Impairment charge                             | -                            | -                            | -                               | -                                 | -                                    | (5,870)              | -                            | -   | -                                      | (5,870)          |
| Depreciation charge for the year              | (57)                         | (130)                        | (1,560)                         | (3,565)                           | (372)                                | (14,766)             | (302)                        | (674)   | -                                      | (21,426)         |
| Exchange differences                          | 822                          | -                            | -                               | 62                                | 18                                   | (46)                 | 2                            | (1)   | -                                      | 857              |
| Closing net book amount                       | 47,200                       | 4,835                        | 693                             | 57,128                            | 1,220                                | 51,771               | 82                           | 2,178   | 138                                    | 165,245          |
| <b>At 31 December 2019</b>                    |                              |                              |                                 |                                   |                                      |                      |                              |   |  |                  |
| Cost  | 47,363                       | 6,533                        | 2,871                           | 79,756                            | 2,174                                | 117,692              | 1,918                        | 7,157   | 138                                    | 265,602          |
| Accumulated depreciation and<br>impairment    | (163)                        | (1,698)                      | (2,178)                         | (22,628)                          | (954)                                | (65,921)             | (1,836)                      | (4,979)   | -                                      | (100,357)        |
| Net book amount                               | 47,200                       | 4,835                        | 693                             | 57,128                            | 1,220                                | 51,771               | 82                           | 2,178   | 138                                    | 165,245          |

Depreciation expense of RMB8,092,000 and RMB5,630,000 (2019: RMB14,945,000 and RMB6,481,000) has been charged to "cost of sales" and "administrative expenses", respectively.

As at 31 December 2020, leasehold land, land use right and leased properties amounted to RMB44,403,000, RMB4,705,000 and RMB3,491,000 (2019: RMB47,200,000, RMB4,835,000 and RMB693,000) respectively represented right-of-use assets of the Group upon adoption of HKFRS16.

As at 31 December 2020, leasehold land and buildings with a total net book value of RMB34,699,000 and RMB7,720,000 were pledged as security for bank loans and bills payables, respectively (2019: RMB37,042,000 and RMB8,605,000) (Notes 24 and 25(ii)).

Land use right with net book value of RMB4,705,000 represented pieces of land located in the PRC with lease periods of 50 years expiring in 2056, which were pledged as security for bills payables as at 31 December 2020 (2019: RMB4,835,000) (Note 25(ii)).

The Group terminated an office lease contract in 2019 prior to the end of the contractual lease term, resulted in a derecognition of right-of-use assets and lease liabilities amounted to RMB280,000 and RMB316,000 (Note 31(b)) respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14 Leases

This note provides information for leases where the Group is a lessee.

The Group leases various offices primarily located in PRC and Hong Kong. Rental contracts are typically made for fixed periods of 2 to 5 years.

### (i) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

|                            | 2020<br>RMB'000 | 2019<br>RMB'000 |
|----------------------------|-----------------|-----------------|
| <b>Right-of-use assets</b> |                 |                 |
| Land use right (Note)      | 4,705           | 4,835           |
| Leasehold land (Note)      | 44,403          | 47,200          |
| Leased properties          | 3,491           | 693             |
|                            | <b>52,599</b>   | 52,728          |
| <b>Lease liabilities</b>   |                 |                 |
| Current                    | 1,265           | 635             |
| Non-current                | 2,257           | 114             |
|                            | <b>3,522</b>    | 749             |

Note:

The Group has land lease arrangements in the PRC and leasehold land in Hong Kong.

Additions to the right-of-use assets during the year ended 31 December 2020 were RMB4,066,000 (2019: RMB463,000) (Note 31(b)).

### (ii) Amounts recognised in the consolidated statement of profit or loss

Depreciation expenses amounted to RMB1,240,000 (2019: RMB1,560,000), RMB57,000 (2019: RMB57,000) and RMB130,000 (2019: RMB130,000) related to leased properties, leasehold land and land use right respectively were charged to the consolidated statement of profit or loss during the year ended 31 December 2020.

Interest expense in relation to lease liabilities amounted to RMB80,000 (2019: RMB71,000) was charged to the consolidated statement of profit or loss and was included in finance costs.

The total cash outflow for leases for the year ended 31 December 2020 was RMB1,345,000 (2019: RMB1,740,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 Intangible assets – computer software

|                                    | RMB'000 |
|------------------------------------|---------|
| <b>Year ended 31 December 2019</b> |         |
| Opening net book amount            | 2,911   |
| Additions                          | 1,769   |
| Amortisation charge (Note 8)       | (874)   |
| Exchange difference                | 3       |
| Closing net book amount            | 3,809   |
| <b>At 31 December 2019</b>         |         |
| Cost                               | 7,413   |
| Accumulated amortisation           | (3,604) |
| Net book amount                    | 3,809   |

|                                    | RMB'000        |
|------------------------------------|----------------|
| <b>Year ended 31 December 2020</b> |                |
| Opening net book amount            | <b>3,809</b>   |
| Additions                          | –              |
| Amortisation charge (Note 8)       | <b>(1,120)</b> |
| Exchange difference                | <b>(9)</b>     |
| Closing net book amount            | <b>2,680</b>   |
| <b>At 31 December 2020</b>         |                |
| Cost                               | <b>7,404</b>   |
| Accumulated amortisation           | <b>(4,724)</b> |
| Net book amount                    | <b>2,680</b>   |

The Group's intangible assets mainly represent computer software. Amortisation of approximately RMB1,120,000 (2019: RMB874,000) is included in administrative expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16 Subsidiaries

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

Particulars of the principal subsidiaries as at 31 December 2020 and 2019 are shown as follows:

| Name   | Place of incorporation/ establishment | Principal activities and place of operations          | Legal form   | Particulars of issued share capital/ paid-in capital             | Proportion of equity interest directly held by the Company | Proportion of equity interest held by the Group |
|--|---------------------------------------|---|--|--|--|---|
| Rich Benefit International Limited ("Rich Benefit")<br>(萬利國際有限公司)                                | British Virgin Islands                | Investment holding                                    | Limited liability                                    | 100 shares of US\$1 each<br>(2019: Same)                         | 100%<br>(2019: Same)                                       | 100%<br>(2019: Same)                            |
| BW Enterprise Company Limited ("BW Enterprise")<br>(百威企業有限公司)                                    | Hong Kong                             | Investment holding and sales of asphalt mixing plants | Limited liability                                    | HK\$30,000,000<br>(2019: Same)                                   | –<br>(2019: Same)  | 100%<br>(2019: Same)                            |
| Langfang D&G*<br>(廊坊德基機械科技有限公司)  | The PRC                               | Manufacture of asphalt mixing plants                  | Foreign investment enterprise with Limited liability | Registered and paid-in capital of RMB200,000,000<br>(2019: Same) | –<br>(2019: Same)  | 100%<br>(2019: Same)                            |
| Tianjin D&G Machinery Equipment Leasing Company Limited ("TJDG")*<br>(天津德基機械設備租賃有限公司) (Note (i)) | The PRC                               | Leasing of asphalt mixing plants                      | Limited liability                                    | Nil (2019: Registered and paid-in capital of RMB2,563,680)       | –<br>(2019: Same)  | –<br>(2019: 100%)                               |
| Primach Technology Pte Ltd ("Primach")   | Singapore                             | Sales of asphalt mixing plants                        | Limited liability                                    | SGD10,000<br>(2019: Same)  | –<br>(2019: Same)  | 100%<br>(2019: Same)                            |
| D&G Machinery Pakistan Co. (Private) Limited   | Pakistan                              | Leasing of asphalt mixing plants                      | Limited liability                                    | 10,000 shares of PAK10 each<br>(2019: Same)                      | –<br>(2019: Same)  | 99.98%<br>(2019: Same)                          |
| Super Diamond Group Ltd  | British Virgin Islands                | Leasing of property                                   | Limited liability                                    | 100 shares of US\$1 each<br>(2019: Same)                         | –<br>(2019: Same)  | 100%<br>(2019: Same)                            |

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

Except for D&G Machinery Pakistan Co. (Private) Limited, all subsidiaries of the Group are wholly-owned. There was no material non-controlling interest as at 31 December 2020 (2019: Same).

Note i: Tianjin D&G Machinery Equipment Leasing Company Limited ("TJDG") was deregistered on 8 September 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17(a) Investment in associates

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

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| Balance at 1 January                             | <b>54,883</b>   | 51,972          |
| Additions  | –               | 1,000           |
| Share of profits                                 | <b>2,746</b>    | 2,164           |
| Transfer to investment in a joint venture (Note) | <b>(870)</b>    | –               |
| Elimination of unrealised profit                 | –               | (253)           |
| Balance at 31 December                           | <b>56,759</b>   | 54,883          |

Note:

According to the shareholders' agreement on 7 March 2020, the Group committed to increase its investment in Sichuan RTDL to RMB6,000,000, representing 50% paid-in capital of Sichuan RTDL. The Group was able to appoint two directors of Sichuan RTDL, and obtained 50% voting right in Sichuan RTDL through board representation. Therefore, Sichuan RTDL is accounted for as a joint venture of the Group since 7 March 2020.

Set out below are the details of the associate of the Group as at 31 December 2020 which, in the opinion of the directors, is material to the Group. The entity listed below has paid-in capital consisting solely of equity interests, which is held indirectly by the Group.

| Name of entity  | Place of business/<br>country of<br>incorporation | % of ownership<br>interest | Nature of<br>relationship | Measurement<br>method | Carrying<br>Amounts<br>2020<br>RMB'000 | Carrying<br>Amounts<br>2019<br>RMB'000 |
|---|---|----------------------------|---------------------------|-----------------------|--|--|
|   |   |                            |                           |                       |  |  |
| Topp Financial Leasing<br>(Shanghai) Co., Ltd.<br>(拓普融資租賃(上海)<br>有限公司) (Note a) | The PRC   | 33.33% (2019: Same)        | Associate                 | Equity method         | <b>56,759</b>                          | 54,013                                 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17(a) Investment in associates (Continued)

### (a) Shanghai Topp

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

#### *Summarised balance sheet*

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| Current assets                                     |                 |                 |
| – Cash and cash equivalents                        | <b>18,469</b>   | 5,675           |
| – Other current assets                             | <b>168,826</b>  | 195,997         |
| Total current assets                               | <b>187,295</b>  | 201,672         |
| Total non-current assets                           | <b>350</b>      | 624             |
| Non-current liabilities                            | <b>(370)</b>    | (338)           |
| Current liabilities                                |                 |                 |
| – Financial liabilities (excluding trade payables) | <b>(2,805)</b>  | (17,014)        |
| – Other current liabilities                        | <b>(16,216)</b> | (24,929)        |
| Total current liabilities                          | <b>(19,021)</b> | (41,943)        |
| Net assets   | <b>168,254</b>  | 160,015         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17(a) Investment in associates (Continued)

### (a) Shanghai Topp (Continued)

#### *Reconciliation to carrying amounts*

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| Opening net assets as at 1 January 2020    | 160,015         | 153,892         |
| Profit for the year ended 31 December 2020 | 8,239           | 6,123           |
| Closing net assets                         | 168,254         | 160,015         |
| Group's equity interest                    | 33.33%          | 33.33%          |
| Group's share of net assets                | 56,079          | 53,333          |
| Fair value gain on retained investment     | 680             | 680             |
| Carrying amount as at 31 December 2020     | 56,759          | 54,013          |

#### *Summarised income statement*

|  | For the<br>year ended<br>31 December<br>2020<br>RMB'000 | For the<br>year ended<br>31 December<br>2019<br>RMB'000 |
|--|---|---|
| Revenue  | 12,350  | 9,496   |
| Finance income, net                                | 1,666   | 1,433   |
| Depreciation and amortisation                      | (272)   | (241)   |
| Other operating expenses                           | (1,923)   | (2,507)   |
| Income tax expense                                 | (3,582)   | (2,058)   |
| Profit and total comprehensive income for the year | 8,239   | 6,123   |

There were no commitment and contingent liabilities in respect of the associates as at 31 December 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17(b) Investment in a joint venture

The movement of the investment in a joint venture during the year is as follows:

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| Balance at 1 January                     | –               | –               |
| Transfer from investment in an associate | 870             | –               |
| Additions                                | 500             | –               |
| Share of profits                         | 455             | –               |
| Balance at 31 December                   | <b>1,825</b>    | –               |

Set out below are the details of the joint venture of the Group as at 31 December 2020 which, in the opinion of the directors, is material to the Group. The entity listed below had paid-in capital consisting solely of equity interests, which are held indirectly by the Group.

| Name of entity   | Place of business/<br>country of<br>incorporation | % of ownership<br>interest | Nature of<br>relationship          | Measurement<br>method | Carrying<br>Amounts<br>2020 | Carrying<br>Amounts<br>2019 |
|--|---|----------------------------|------------------------------------|-----------------------|-----------------------------|-----------------------------|
|  |   |                            |                                    |                       | RMB'000                     | RMB'000                     |
| Sichuan Rui Tong De Long New<br>Materials Technology Limited<br>(四川瑞通德隆新材料科技<br>有限公司) (Note a) | The PRC   | 50% (2019: 40%)            | Joint venture<br>(2019: Associate) | Equity method         | <b>1,825</b>                | 870                         |

### (a) Sichuan RTDL

The Group injected capital of RMB1,000,000 into a newly established company, Sichuan RTDL on 19 June 2019. Sichuan RTDL is principally engaged in sales and leasing of asphalt mixing plants. As at 31 December 2020, Sichuan RTDL was held as to approximately 50% by the Group.

The Directors are of the opinion that Sichuan RTDL is not material to the Group. Accordingly, summarised financial information of Sichuan RTDL is not presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18 Financial instruments by category

The group holds the following financial instruments:

|   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|-----------------|-----------------|
| <b>Financial assets</b>   |                 |                 |
| <b>Financial assets at amortised cost:</b>                      |                 |                 |
| Trade and bills receivables (Note 21)                           | 189,634         | 226,885         |
| Deposits and other receivables, excluding prepayments (Note 22) | 17,317          | 16,361          |
| Amount due from an associate (Note 34(b))                       | –               | 9,728           |
| Amount due from a joint venture (Note 34(b))                    | 4,962           | –               |
| Pledged bank deposits (Note 23)                                 | 49,011          | 47,413          |
| Cash and cash equivalents (Note 23)                             | 188,778         | 94,912          |
| Financial assets at fair value through profit or loss:          |                 |                 |
| Investment in convertible bond (Note 19)                        | 20,000          | –               |
|   | <b>469,702</b>  | 395,299         |
| <b>Financial liabilities</b>                                    |                 |                 |
| <b>Financial liabilities at amortised cost:</b>                 |                 |                 |
| Trade and other payables* (Note 25)                             | 153,777         | 142,241         |
| Borrowings (Note 24)  | 31,145          | 77,551          |
| Lease liabilities (Note 14)                                     | 3,522           | 749             |
| Amount due to a joint venture (Note 34(b))                      | 500             | –               |
|   | <b>188,944</b>  | 220,541         |

\* Excluding non-financial liabilities

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise the following:

|                                | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--------------------------------|-----------------|-----------------|
| <b>Non-current assets</b>      |                 |                 |
| Investment in convertible bond | 20,000          | –               |

In 2020, the Group purchased a convertible bond issued by 浙江正方瀝青混凝土科技有限公司 (the "Issuer"), amounting to RMB20,000,000. The Issuer of the convertible bond is engaged in providing asphalt concrete for highway construction through setting up asphalt concrete stations. The convertible bond is guaranteed by the parent holding company of the Issuer and is interest bearing at 6% per annum. Under the convertible bond agreement, the Group 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 Issuer 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 GAAP.

Management performed a fair value assessment of the convertible bonds as at 31 December 2020 by engaging an independent firm of professionally qualified valuers to perform a valuation of the Issuer using the discounted cash flow model under the income approach. Based on the fair value assessment, the carrying amount of the investment in the convertible bond approximates the fair value.

The key assumptions adopted in the valuation are as follows:

|                     |     |
|---------------------|-----|
| Gross margin        | 27% |
| Expected volatility | 37% |
| Risk-free rate      | 3%  |
| Discount rate       | 8%  |

As at 31 December 2020, increasing/decreasing expected volatility by 5% would increase/decrease the fair value of the investment in convertible bond by RMB346,000 and RMB458,000 respectively. Increasing/decreasing discount rate by 1% would decrease/increase the fair value by RMB416,000 and RMB429,000 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 Inventories

|                  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|------------------|-----------------|-----------------|
| Raw materials    | <b>83,502</b>   | 99,825          |
| Work in progress | <b>147,502</b>  | 159,601         |
| Finished goods   | –               | 11,955          |
|                  | <b>231,004</b>  | 271,381         |

The cost of inventories recognised as expense and included in “cost of sales” amounted to approximately RMB240,459,000 (2019: RMB290,391,000). The inventories as at 31 December 2020 and 2019 were stated at the lower of cost and net realisable value. The provision for inventories of RMB32,977,000 (2019: RMB27,441,000) has been included in “cost of sales” in the consolidated statement of profit or loss for the year ended 31 December 2020.

## 21 Trade and bills receivables

|                                      | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--------------------------------------|-----------------|-----------------|
| Trade receivables from third-parties | <b>251,896</b>  | 306,504         |
| Loss allowance (Note 4.1(b))         | <b>(60,274)</b> | (86,329)        |
| Discounting impact                   | <b>(11,702)</b> | (14,541)        |
|                                      | <b>179,920</b>  | 205,634         |
| Bills receivables                    | <b>9,714</b>    | 21,251          |
| Total trade and bills receivables    | <b>189,634</b>  | 226,885         |

(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21 Trade and bills receivables (Continued)

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

|               | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---------------|-----------------|-----------------|
| Within 1 year | 159,361         | 166,803         |
| 1 to 2 years  | 38,290          | 63,643          |
| 2 to 3 years  | 16,622          | 41,163          |
| Over 3 years  | 37,623          | 34,895          |
|               | <b>251,896</b>  | 306,504         |

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

|     | 2020<br>RMB'000 | 2019<br>RMB'000 |
|-----|-----------------|-----------------|
| RMB | 251,497         | 305,755         |
| PKR | 399             | 749             |
|     | <b>251,896</b>  | 306,504         |

(d) **Fair values of trade and bills receivables**

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

(e) **Impairment and risk exposure**

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Information about the loss allowance of trade receivables and the Group's exposure to credit risk on trade receivables can be found in Note 4.1(b).

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 Prepayments, deposits and other receivables

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| <b>Non-current:</b>                                      |                 |                 |
| Deposits   | –               | 800             |
|  | –               | 800             |
| <b>Current:</b>  |                 |                 |
| Prepayments to suppliers                                 | 21,518          | 20,814          |
| Other receivables and deposits                           | 17,427          | 15,561          |
| Less: impairment of other receivables and deposits       | (110)           | –               |
|  | 38,835          | 36,375          |
| <b>Total prepayments, deposits and other receivables</b> | <b>38,835</b>   | <b>37,175</b>   |

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

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

|        | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--------|-----------------|-----------------|
| RMB    | 38,408          | 29,908          |
| HKD    | 441             | 7,111           |
| USD    | 28              | 31              |
| Others | 68              | 125             |
|        | 38,945          | 37,175          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 Prepayments, deposits and other receivables (Continued)

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

|                         | 2020<br>RMB'000 | 2019<br>RMB'000 |
|-------------------------|-----------------|-----------------|
| Balance at 1 January    | -               | -               |
| Provision of impairment | 110             | -               |
| Balance at 31 December  | 110             | -               |

Information about the loss allowance of other receivables and deposits and the Group's exposure to credit risk on other receivables and deposits can be found in Note 4.1(b).

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

## 23 Cash and cash equivalents and pledged bank deposits

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

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| Cash at bank and on hand   | 188,778         | 94,912          |
| Restricted bank deposits pledged in respect of bank borrowings (Note 24) | 22,856          | 31,833          |
| Restricted bank deposits pledged in respect of bills payables (Note 25)  | 26,155          | 15,580          |
| Total cash and cash equivalents and pledged bank deposits                | 237,789         | 142,325         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The effective interest rate on bank deposits was 2.55% (2019: 1.55%) per annum.

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

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

|        | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--------|-----------------|-----------------|
| RMB    | 190,486         | 99,824          |
| HKD    | 1,255           | 8,553           |
| EUR    | 41              | 5               |
| PAK    | 6,158           | 4,636           |
| USD    | 39,658          | 28,849          |
| Others | 191             | 458             |
|        | <b>237,789</b>  | 142,325         |

### Significant restrictions

Bank balances of the Group as at 31 December 2020 amounting to RMB195,499,000 (2019: RMB89,576,000) were placed with certain banks in the PRC. The remittance of these balances is subject to the foreign exchange control restrictions imposed by the PRC government.

## 24 Borrowings

Borrowings are analysed as follows:

|                    | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--------------------|-----------------|-----------------|
| Secured bank loans | 31,145          | 72,258          |
| Other borrowing    | –               | 5,293           |
|                    | <b>31,145</b>   | 77,551          |

As at 31 December 2020, all bank borrowings of the Group were at floating rates. As at 31 December 2019, except for bank borrowings of RMB20,293,000, which were at fixed rates, the remaining borrowings of the Group were at floating rates.

In February 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. As at 31 December 2019, the other borrowing amounted to RMB5,293,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24 Borrowings (Continued)

At 31 December 2020, the Group's bank loans were secured by the corporate guarantee provided by the Company, pledged bank deposits and property, plant and equipment (2019: Same). Borrowings of RMB13,599,000 (2019: RMB57,258,000) were secured by the pledged bank deposits of RMB22,856,000 (2019: RMB31,833,000) and property, plant and equipment of RMB34,699,000 (2019: RMB37,042,000).

At 31 December 2020, the Group's borrowings, without considering the repayment on demand clause, were repayable as follows:

|                       | 2020<br>RMB'000 | 2019<br>RMB'000 |
|-----------------------|-----------------|-----------------|
| Within 1 year         | 19,122          | 66,798          |
| Between 1 and 2 years | 4,395           | 1,719           |
| Between 2 and 5 years | 7,628           | 9,034           |
|                       | <b>31,145</b>   | 77,551          |

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

|     | 2020<br>RMB'000 | 2019<br>RMB'000 |
|-----|-----------------|-----------------|
| RMB | –               | 20,293          |
| HKD | 31,145          | 57,258          |
|     | <b>31,145</b>   | 77,551          |

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

|     | 2020  | 2019  |
|-----|-------|-------|
| RMB | –     | 5.22% |
| HKD | 2.28% | 2.57% |

At 31 December 2020, the Group had undrawn borrowing facilities amounting to RMB39,714,000 (2019: RMB36,786,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 Trade and other payables and contract liabilities

|  | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|-----------------|-----------------|
| <b>Current:</b>                            |                 |                 |
| Trade payables (i)                         | <b>69,071</b>   | 54,412          |
| Bills payables (i)                         | <b>58,123</b>   | 49,883          |
|  | <b>127,194</b>  | 104,295         |
| Amount due to a related party (Note 34(b)) | <b>310</b>      | 350             |
| Other payables and accruals                | <b>33,539</b>   | 44,346          |
|  | <b>33,849</b>   | 44,696          |
| Total trade and other payables             | <b>161,043</b>  | 148,991         |
| Contract liabilities                       | <b>73,774</b>   | 33,044          |
|  | <b>234,817</b>  | 182,035         |

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

|                                    | 2020<br>RMB'000 | 2019<br>RMB'000 |
|------------------------------------|-----------------|-----------------|
| Within 3 months                    | <b>79,469</b>   | 66,863          |
| After 3 months but within 6 months | <b>35,147</b>   | 21,834          |
| After 6 months but within 1 year   | <b>9,541</b>    | 13,896          |
| Over 1 year                        | <b>3,037</b>    | 1,702           |
|                                    | <b>127,194</b>  | 104,295         |

(ii) As at 31 December 2020, bills payables were secured by the Group's pledged bank deposits of RMB26,155,000 (2019: RMB15,580,000), property, plant and equipment of RMB7,720,000 (2019: RMB8,605,000) and land use right of RMB4,705,000 (2019: RMB4,835,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 Trade and other payables and contract liabilities (Continued)

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

|        | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--------|-----------------|-----------------|
| RMB    | 232,028         | 168,513         |
| HKD    | 359             | 892             |
| USD    | 2,164           | 12,594          |
| Others | 266             | 36              |
|        | <b>234,817</b>  | 182,035         |

## 26 Deferred income tax

The analysis of deferred tax assets and liabilities is as follows:

|                          | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--------------------------|-----------------|-----------------|
| Deferred tax assets      | 12,342          | 18,672          |
| Deferred tax liabilities | 4,500           | 3,500           |

### (a) Deferred tax assets

The balance comprises temporary differences attributable to:

|   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|-----------------|-----------------|
| Provision for impairment of trade receivables | 9,531           | 13,030          |
| Unrealised profit                             | –               | 736             |
| Accrued expenses and other payables           | 606             | 2,447           |
| Product warranty provision                    | 449             | 277             |
| Others  | 1,756           | 2,182           |
|   | <b>12,342</b>   | 18,672          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 Deferred income tax (Continued)

### (a) Deferred tax assets (Continued)

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

| Deferred tax assets arising from:    | Provision for impairment of trade receivables<br>RMB'000 | Unrealised profit<br>RMB'000 | Accrued expenses and other payables<br>RMB'000 | Product warranty provision<br>RMB'000 | Others<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------------|--|------------------------------|--|---------------------------------------|-------------------|------------------|
| Balance at 1 January 2019            | 16,325   | 1,653                        | 1,671  | 182                                   | 1,815             | 21,646           |
| (Charged)/credited to profit or loss | (3,295)  | (917)                        | 776  | 95                                    | 367               | (2,974)          |
| Balance at 31 December 2019          | 13,030   | 736                          | 2,447  | 277                                   | 2,182             | 18,672           |
| Balance at 1 January 2020            | <b>13,030</b>  | <b>736</b>                   | <b>2,447</b>                                   | <b>277</b>                            | <b>2,182</b>      | <b>18,672</b>    |
| (Charged)/credited to profit or loss | <b>(3,499)</b>   | <b>(736)</b>                 | <b>(1,841)</b>                                 | <b>172</b>                            | <b>(426)</b>      | <b>(6,330)</b>   |
| Balance at 31 December 2020          | <b>9,531</b>   | <b>-</b>                     | <b>606</b>                                     | <b>449</b>                            | <b>1,756</b>      | <b>12,342</b>    |

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of RMB16,677,000 (2019: RMB12,794,000) in respect of losses amounting to RMB85,469,000 (2019: RMB67,778,000) that can be carried forward against future taxable income. Total unrecognised tax losses of RMB58,932,000 (2019: RMB51,764,000) can be carried forward indefinitely while unrecognised tax losses of RMB168,000, RMB6,161,000, RMB5,539,000, RMB4,146,000 and RMB10,522,000 will expire in 2021, 2022, 2023, 2024 and 2025 respectively (2019: RMB168,000, RMB6,161,000, RMB5,539,000 and RMB4,146,000 will expire in 2021, 2022, 2023 and 2024 respectively).

### (b) Deferred tax liabilities

The balance comprises temporary differences attributable to:

|   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|-----------------|-----------------|
| Withholding tax on undistributed earnings | <b>4,500</b>    | 3,500           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 Deferred income tax (Continued)

### (b) Deferred tax liabilities (Continued)

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

| <b>Deferred tax liabilities arising from:</b> | <b>Withholding tax<br/>on undistributed<br/>earnings</b><br>RMB'000 |
|---|---|
| Balance at 1 January 2020                     | 3,500   |
| Charged to profit or loss                     | 1,000   |
| <hr/>   |   |
| Balance at 31 December 2020                   | <b>4,500</b>  |

The PRC corporate income tax law and relevant regulations impose a withholding tax at 5%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated from 1 January 2008 to overseas shareholders. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities in respect of the undistributed earnings of the Company's PRC subsidiaries of approximately RMB293,741,000 at 31 December 2020 (2019: RMB336,473,000) as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

## 27 Share capital and share premium

Authorised:

|   | <b>Number of<br/>Ordinary shares of<br/>HK\$0.01 each</b> | <b>Nominal value of<br/>ordinary shares</b><br>HK\$ |
|---|---|---|
| <b>At 1 January 2019, 31 December 2019, 1 January 2020 and<br/>31 December 2020</b> | 2,000,000,000   | 20,000,000  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27 Share capital and share premium (Continued)

Issued and fully paid:

|   | Number<br>of shares<br>(‘000) | Nominal value<br>of ordinary<br>shares<br>HK\$’000 | Nominal value<br>of ordinary<br>shares<br>RMB’000 | Share<br>Premium<br>RMB’000 |
|---|-------------------------------|--|---|-----------------------------|
| <b>At 1 January 2019</b>  | 620,238                       | 6,203  | 4,897   | 419,617                     |
| Employee share option scheme:                                       |                               |  |   |                             |
| Shares issued in respect of exercise of share options               | 1,720                         | 17   | 15  | 1,282                       |
| <b>At 31 December 2019, 1 January 2020<br/>and 31 December 2020</b> | <b>621,958</b>                | <b>6,220</b>                                       | <b>4,912</b>                                      | <b>420,899</b>              |

## 28 Share-based payments

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28 Share-based payments (Continued)

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

|   | Average exercise price in HK\$ per share option | Number of share options ('000) |
|---|---|--------------------------------|
| <b>At 1 January 2019</b>                      | 1.01  | 44,170                         |
| Exercised                                     | 0.88  | (1,720)                        |
| Forfeited                                     | 0.98  | (2,700)                        |
| <b>At 31 December 2019 and 1 January 2020</b> | 1.01  | 39,750                         |
| Forfeited                                     | 1.12  | (2,000)                        |
| <b>At 31 December 2020</b>                    | <b>0.98</b>                                     | <b>37,750</b>                  |

As at 31 December 2020, out of the 37,750,000 outstanding options (2019: 39,750,000), 37,750,000 options were exercisable (2019: 28,750,000). As at 31 December 2020, 20,000,000 (2019: 22,000,000) and 17,750,000 (2019: 17,750,000) outstanding share options will expire on 4 June 2023 and 19 April 2021 respectively.

The fair value of the options granted during the year ended 31 December 2018 determined using the binomial valuation model was HK\$1.01 per option. The significant inputs into the model were the share price of HK\$1.12, exercise price shown above, the expected option life of five years, dividend yield of 0% and the risk-free interest rate of 2.21%. No options were granted during the year ended 31 December 2020.

## 29 Statutory reserves

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

## 30 Dividends

The directors of the Company do not recommend the payment of a final dividend in respect of the year ended 31 December 2020 (2019: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31 Note to consolidated statement of cash flows

### (a) Cash generated from operations

Reconciliation of loss before tax to cash generated from operations is as follows:

|   | Note   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|--------|-----------------|-----------------|
| Loss before tax   |        | <b>(8,045)</b>  | (26,911)        |
| Adjustments for:  |        |                 |                 |
| – Depreciation and amortisation                             | 8      | <b>14,842</b>   | 22,300          |
| – Finance costs   | 10     | <b>3,269</b>    | 5,316           |
| – Interest income   | 10     | <b>(13,291)</b> | (14,169)        |
| – Share-based payment expenses                              | 9      | <b>1,092</b>    | 4,245           |
| – Share of profit of associates                             | 17(a)  | <b>(2,746)</b>  | (2,164)         |
| – Share of profit of a joint venture                        | 17(b)  | <b>(455)</b>    | –               |
| – Net reversal of impairment loss on trade receivables      | 4.1(b) | <b>(26,055)</b> | (34,768)        |
| – Provision for impairment of other receivables             | 22     | <b>110</b>      | –               |
| – Provision for impairment of inventories                   | 20     | <b>32,977</b>   | 27,441          |
| – (Gain)/Loss on disposal of property, plant and equipment  | 7      | <b>(5,701)</b>  | 478             |
| – Write-off of property, plant and equipment                | 13     | –               | 489             |
| – Provision for impairment of property, plant and equipment | 13     | <b>3,677</b>    | 5,870           |
| – Gain on early termination of lease                        | 7      | –               | (36)            |
|   |        | <b>(326)</b>    | (11,909)        |
| Changes in working capital:                                 |        |                 |                 |
| – Inventories   |        | <b>7,400</b>    | (9,325)         |
| – Trade and other receivables and contract assets           |        | <b>78,726</b>   | 53,757          |
| – Restricted bank deposits pledged for bills payables       |        | <b>(10,575)</b> | 19,460          |
| – Trade and other payables and contract liabilities         |        | <b>52,782</b>   | (22,915)        |
| – Amount due from an associate                              |        | –               | 79              |
| – Amount due from a joint venture                           |        | <b>(152)</b>    | –               |
| Cash generated from operations                              |        | <b>127,855</b>  | 29,147          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31 Note to consolidated statement of cash flows (Continued)

### (b) Liabilities arising from financing activities

|  | Lease liabilities<br>RMB'000 | Borrowings<br>RMB'000 |
|--|------------------------------|-----------------------|
| As at 1 January 2019                                       | 2,271                        | 60,102                |
| Proceeds from new borrowings                               | –                            | 72,498                |
| Repayments of borrowings                                   | –                            | (55,991)              |
| Addition of leases   | 463                          | –                     |
| Repayment of principal portion of lease liabilities        | (1,669)                      | –                     |
| Early termination of lease (Note 13)                       | (316)                        | –                     |
| Foreign exchange adjustments                               | –                            | 942                   |
| As at 31 December 2019 and 1 January 2020                  | 749                          | 77,551                |
| Proceeds from new borrowings                               | –                            | 38,703                |
| Repayments of borrowings                                   | –                            | (83,447)              |
| Addition of leases   | 4,066                        | –                     |
| Repayment of principal portion of lease liabilities        | (1,345)                      | –                     |
| Unwinding discount interest on lease liabilities (Note 10) | 80                           | –                     |
| Foreign exchange adjustments                               | (28)                         | (1,662)               |
| <b>As at 31 December 2020</b>                              | <b>3,522</b>                 | <b>31,145</b>         |

### (c) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

|   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|-----------------|-----------------|
| Net book amount   | <b>30,308</b>   | 19,047          |
| Net gain/(loss) on disposal of property, plant and equipment                            | <b>5,701</b>    | (478)           |
| Total consideration from disposal of property, plant and equipment                      | <b>36,009</b>   | 18,569          |
| Consideration not yet received  | <b>(5,114)</b>  | (10,934)        |
|   | <b>30,895</b>   | 7,635           |
| Changes in the consideration receivables from disposal of property, plant and equipment | <b>5,820</b>    | –               |
| Proceeds from disposal of property, plant and equipment received                        | <b>36,715</b>   | 7,635           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32 Commitments

- (a) Capital commitments as at 31 December 2020 not provided for in the consolidated financial statements were as follows:

|                               | 2020<br>RMB'000 | 2019<br>RMB'000 |
|-------------------------------|-----------------|-----------------|
| Contracted for:               |                 |                 |
| Investment in an associate    | –               | 3,000           |
| Investment in a joint venture | <b>4,500</b>    | –               |
| Property, plant and equipment | <b>2,015</b>    | 2,320           |
|                               | <b>6,515</b>    | 5,320           |

As at 31 December 2020, there were no capital commitments authorised but not contracted for (2019: Same).

(b) **Operating lease commitments – as lessee**

At 31 December 2019 and 2020, the total future minimum lease payments under non-cancellable operating leases not recognised in the consolidated financial statements were as follows:

|               | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---------------|-----------------|-----------------|
| Within 1 year | <b>9</b>        | 15              |

(c) **Operating lease commitments – as lessor**

At 31 December 2020 and 2019, the total future minimum lease receivables in respect of the Group's plants under non-cancellable operating leases were as follows:

|               | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---------------|-----------------|-----------------|
| Within 1 year | <b>1,983</b>    | 10,938          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33 Financial guarantee

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 third-party leasing companies and Shanghai Topp. Under the leasing arrangements, Langfang D&G provided guarantee to the third-party leasing companies and Shanghai Topp that in the event of customer default, the third-party leasing companies and Shanghai Topp have the rights to demand Langfang D&G to repay the outstanding lease payments due from the customers for the repossession of the leased plants. As at 31 December 2020, the Group's maximum exposure to such guarantees was approximately RMB91,570,000 (2019: RMB76,769,000).

## 34 Related party transactions

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

### (a) Transactions with related parties

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

|   | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|-----------------|-----------------|
| Interest income from an associate<br>– Sichuan RTDL (Note b(i))     | –               | 380             |
| Interest income from a joint venture<br>– Sichuan RTDL (Note b(i))  | 360             | –               |
| Purchase of goods and services from an associate<br>– Shanghai Topp | 307             | –               |
|   | <b>667</b>      | 380             |

The above transactions were entered at terms mutually agreed with the related parties in the ordinary course of the Group's business.

In addition, the Group disposed of certain leased machineries 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 income and gains/(losses), net" for the year ended 31 December 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 Related party transactions (Continued)

### (b) Year end balances

|  | Note | 2020<br>RMB'000 | 2019<br>RMB'000 |
|--|------|-----------------|-----------------|
| Amount due from an associate<br>– Sichuan RTDL   | (i)  | –               | 9,728           |
| Amount due from a joint venture<br>– Sichuan RTDL  | (i)  | <b>4,962</b>    | –               |
| Amount due to a joint venture<br>– Sichuan RTDL  | (ii) | <b>500</b>      | –               |
| Included in other receivables:<br>Amount due from an associate, Shanghai Topp                      | (ii) | <b>1,832</b>    | 1,712           |
| Included in other payables:<br>Amount due to a related party<br>– Entity controlled by Choi Family | (ii) | <b>310</b>      | 350             |

Note:

- (i) As at 31 December 2020 and 31 December 2019, the amount due from Sichuan RTDL represented receivables in respect of disposal of machineries to Sichuan RTDL and the accumulated interest. The balance was interest bearing at 4.5% per annum and was unsecured. The balance shall be settled by monthly installments before March 2022.
- (ii) As at 31 December 2020 and 2019, the amounts due from an associate, due to a joint venture and a related party were unsecured, interest free and repayable on demand.

### (c) Key management compensation

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 Statement of financial position and reserve movement of the Company

|                                     | Note | 2020<br>RMB'000 | 2019<br>RMB'000 |
|-------------------------------------|------|-----------------|-----------------|
| <b>Non-current assets</b>           |      |                 |                 |
| Investment in a subsidiary          |      | –               | –               |
| Amounts due from subsidiaries       |      | 418,569         | 448,014         |
| <b>Total non-current assets</b>     |      | <b>418,569</b>  | 448,014         |
| <b>Current assets</b>               |      |                 |                 |
| Other receivables                   |      | 220             | 283             |
| Cash and cash equivalents           |      | 141             | 541             |
| <b>Total current assets</b>         |      | <b>361</b>      | 824             |
| <b>Total assets</b>                 |      | <b>418,930</b>  | 448,838         |
| <b>Equity</b>                       |      |                 |                 |
| Share capital                       |      | 4,912           | 4,912           |
| Reserves                            | (a)  | 413,759         | 442,620         |
|                                     |      | <b>418,671</b>  | 447,532         |
| <b>Current liabilities</b>          |      |                 |                 |
| Other payables                      |      | 259             | 1,306           |
| <b>Total liabilities</b>            |      | <b>259</b>      | 1,306           |
| <b>Total equity and liabilities</b> |      | <b>418,930</b>  | 448,838         |

The statement of financial position of the Company was approved by the Board of Directors on 30 March 2021 and signed on its behalf.

**Choi Hung Nang**  
Director

**Choi Kwan Li, Glendy**  
Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (a) Reserve movements of the Company

|   | Share<br>premium<br>RMB'000 | Capital<br>reserve<br>RMB'000 | Share-based<br>payment<br>reserve<br>RMB'000 | Exchange<br>reserve<br>RMB'000 | Accumulated<br>losses<br>RMB'000 | Total<br>RMB'000 |
|---|-----------------------------|-------------------------------|--|--------------------------------|----------------------------------|------------------|
| <b>Balance at 31 December 2018 and<br/>1 January 2019</b> | 419,617                     | 7,888                         | 9,404  | 50,919                         | (49,274)                         | 438,554          |
| Total comprehensive loss for the year                     | -                           | -                             | -  | 6,488                          | (7,949)                          | (1,461)          |
| Employee share option scheme                              |                             |                               |  |                                |                                  |                  |
| – grant of share options                                  | -                           | -                             | 4,245  | -                              | -                                | 4,245            |
| Employee share option scheme                              |                             |                               |  |                                |                                  |                  |
| – lapse of share options                                  | -                           | -                             | (436)  | -                              | 436                              | -                |
| Employee share option scheme                              |                             |                               |  |                                |                                  |                  |
| – exercise of share options                               | 1,282                       | -                             | -  | -                              | -                                | 1,282            |
| <b>Balance at 31 December 2019</b>                        | 420,899                     | 7,888                         | 13,213                                       | 57,407                         | (56,787)                         | 442,620          |
| <b>Balance at 31 December 2019 and<br/>1 January 2020</b> | 420,899                     | 7,888                         | 13,213                                       | 57,407                         | (56,787)                         | 442,620          |
| Total comprehensive loss for the year                     | -                           | -                             | -  | (25,851)                       | (4,102)                          | (29,953)         |
| Employee share option scheme                              |                             |                               |  |                                |                                  |                  |
| – grant of share options                                  | -                           | -                             | 1,092  | -                              | -                                | 1,092            |
| Employee share option scheme                              |                             |                               |  |                                |                                  |                  |
| – lapse of share options                                  | -                           | -                             | (884)  | -                              | 884                              | -                |
| <b>Balance at 31 December 2020</b>                        | <b>420,899</b>              | <b>7,888</b>                  | <b>13,421</b>                                | <b>31,556</b>                  | <b>(60,005)</b>                  | <b>413,759</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

| Emoluments paid or receivable in respect of a person's services as a director,<br>whether of the Company or its subsidiary undertaking<br>for the year ended 31 December 2020 |   |   |                                     |  |                  |
|---|---|---|-------------------------------------|--|------------------|
|   | Salaries,<br>allowances<br>and benefits<br>in kind<br>(including<br>Director's<br>fees<br>RMB'000 | share-based<br>compensation)<br>RMB'000 | Discretionary<br>bonuses<br>RMB'000 | Retirement<br>scheme<br>contributions<br>RMB'000 | Total<br>RMB'000 |
| <b>Executive directors</b>  |   |   |                                     |  |                  |
| Mr. Choi Hung Nang ( <i>Chairman</i> )  | 162   | 2,156                                   | -                                   | -  | 2,318            |
| Mr. Choi Hon Ting, Derek  | 162   | 1,072                                   | -                                   | 24   | 1,258            |
| Ms. Choi Kwan Li, Glendy<br>( <i>Chief Executive Officer</i> )  | 162   | 1,666                                   | -                                   | 24   | 1,852            |
| Mr. Liu Tom Jing-zhi  | 162   | 1,011                                   | -                                   | 24   | 1,197            |
| Mr. Lao Kam Chi   | 162   | 1,247                                   | -                                   | 24   | 1,433            |
| <b>Non-executive directors</b>  |   |   |                                     |  |                  |
| Mr. Chan Lewis  | 162   | 19                                      | -                                   | -  | 181              |
| Mr. Alain Vincent Fontaine  | 162   | 19                                      | -                                   | -  | 181              |
| <b>Independent non-executive directors</b>  |   |   |                                     |  |                  |
| Mr. Li Zongjin  | 162   | 19                                      | -                                   | -  | 181              |
| Mr. Lee Wai Yat, Paco   | 162   | 19                                      | -                                   | -  | 181              |
| Mr. Fok Wai Shun, Wilson  | 162   | 26                                      | -                                   | -  | 188              |
| Mr. O' Yang Wiley   | 162   | -                                       | -                                   | -  | 162              |
|   | 1,782   | 7,254                                   | -                                   | 96   | 9,132            |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

|   | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking for the year ended 31 December 2019 |   |                                     |  |  | Total<br>RMB'000 |
|---|---|---|-------------------------------------|--|--|------------------|
|   | Director's<br>fees<br>RMB'000   | Salaries,<br>allowances<br>and benefits<br>in kind<br>(including<br>share-based<br>compensation)<br>RMB'000 | Discretionary<br>bonuses<br>RMB'000 | Retirement<br>scheme<br>contributions<br>RMB'000 |  |                  |
| <b>Executive directors</b>                                      |   |   |                                     |  |  |                  |
| Mr. Choi Hung Nang ( <i>Chairman</i> )                          | 166   | 2,702   | –                                   | –  |  | 2,868            |
| Mr. Choi Hon Ting, Derek  | 166   | 1,608   | –                                   | 24   |  | 1,798            |
| Ms. Choi Kwan Li, Glendy<br>( <i>Chief Executive Officer</i> )  | 166   | 2,216   | –                                   | 24   |  | 2,406            |
| Mr. Liu Tom Jing-zhi  | 166   | 1,354   | –                                   | 24   |  | 1,544            |
| Mr. Lao Kam Chi   | 166   | 1,460   | –                                   | 24   |  | 1,650            |
| <b>Non-executive directors</b>                                  |   |   |                                     |  |  |                  |
| Mr. Chan Lewis  | 166   | 59  | –                                   | –  |  | 225              |
| Mr. Alain Vincent Fontaine                                      | 166   | 59  | –                                   | –  |  | 225              |
| <b>Independent non-executive directors</b>                      |   |   |                                     |  |  |                  |
| Mr. Law Wang Chak, Waltery<br>( <i>resigned on 1 May 2019</i> ) | 54  | –   | –                                   | –  |  | 54               |
| Mr. Li Zongjin  | 166   | 59  | –                                   | –  |  | 225              |
| Mr. Lee Wai Yat, Paco   | 166   | 59  | –                                   | –  |  | 225              |
| Mr. Fok Wai Shun, Wilson  | 166   | 78  | –                                   | –  |  | 244              |
| Mr. O' Yang Wiley<br>( <i>appointed on 1 May 2019</i> )         | 113   | –   | –                                   | –  |  | 113              |
|   | 1,827   | 9,654   | –                                   | 96   |  | 11,577           |

There were no amounts paid during the year to the directors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join (2019: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2019: Nil).

No emoluments were paid or receivable in respect of directors' other services in connection with the management of affairs of the Company or its subsidiary undertakings for the year ended 31 December 2020 (2019: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate or connected entities (2019: Nil).

There are no significant transactions, arrangements and contracts relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: Same).

## **37 Event after the balance sheet date**

In January 2021, a new wave of COVID-19 outbreak in Hebei Province and Langfang City went into lockdown and residences put under home quarantine for seven days. The domestic and overseas logistic arrangements have been slightly affected due to transportation restrictions which led to delay in the delivery of the Group's products to certain of its customers and the efficiency of the supply chain. The logistic has resumed back to normal in February 2021. The Group will keep continuous monitoring of the situation of the COVID-19 and adjust its operational and financial strategies to minimise their impact on the financial position and performance of the Group.