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MEIGU Technology Holding Group Limited

美固科技控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8349)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the “**Director(s)**”) of MEIGU Technology Holdings Group Limited (the “**Company**”) collectively and individually accepts full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

RESULTS

The board of Directors (the “Board”) announces the unaudited results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2017, together with comparative figures for the same corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	For the three months ended 30 June		For the six months ended 30 June	
		2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Audited)
Revenue	4	19,387	16,483	31,095	27,881
Cost of sales		(12,526)	(10,786)	(20,022)	(18,352)
Gross profit		6,861	5,697	11,073	9,529
Other revenue	5	4	17	117	22
Other net income	5	–	429	77	503
Selling and distribution costs		(1,723)	(1,430)	(3,227)	(2,617)
Administrative expenses		(1,572)	(2,673)	(6,836)	(6,434)
Profit from operations		3,570	2,040	1,204	1,003
Finance costs	6(a)	(264)	(294)	(525)	(588)
Profit before taxation	6	3,306	1,746	679	415
Income tax	7	(774)	(1,107)	(1,150)	(1,524)
Profit/(Loss) for the period		2,532	639	(471)	(1,109)
Other comprehensive income for the period		–	–	–	–
Total comprehensive income/(loss) for the period		2,532	639	(471)	(1,109)
Profit/(Loss) and total comprehensive income/(loss) for the period attributable to:					
Owners of the Company		2,532	639	(471)	(1,182)
Non-controlling interests		–	–	–	73
		2,532	639	(471)	(1,109)
Earnings/(Loss) per share					
		<i>RMB cent</i>	<i>RMB cent</i>	<i>RMB cent</i>	<i>RMB cent</i>
Basic and diluted	9	0.63	0.21	(0.12)	(0.39)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
	Notes		
Non-current assets			
Property, plant and equipment		14,267	14,536
Leasehold land held for own use under an operating lease		1,455	1,474
Pledged bank deposits		2,373	113
Deferred tax assets		361	361
		<u>18,456</u>	<u>16,484</u>
Current assets			
Inventories		5,027	3,270
Property held for sale		1,468	1,468
Trade and other receivables	10	41,687	44,487
Pledged bank deposits		–	400
Cash and cash equivalents		16,807	3,858
		<u>64,989</u>	<u>53,483</u>
Current liabilities			
Trade and other payables	11	12,653	21,869
Bank borrowings		20,000	20,000
Amount due to a shareholder		–	2,714
Income tax payable		2,531	1,758
		<u>35,184</u>	<u>46,341</u>
Net current assets		<u>29,805</u>	<u>7,142</u>
Total assets less current liabilities		48,261	23,626
Non-current liabilities			
Deferred tax liabilities		2,218	1,812
NET ASSETS		<u>46,043</u>	<u>21,814</u>
Capital and reserves			
Share capital	12	3,600	–
Reserves		42,443	21,814
TOTAL EQUITY		<u>46,043</u>	<u>21,814</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to owners of the Company

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital Reserve <i>RMB'000</i>	Share- based payment reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 January 2016 (Audited)	–	–	9,557	–	2,855	17,384	29,796	3,825	33,621
Loss and total comprehensive loss for the period	–	–	–	–	–	(1,182)	(1,182)	73	(1,109)
Issuance of shares	–	–	12,584	–	–	–	12,584	–	12,584
Repurchase of shares	–	–	(12,584)	–	–	–	(12,584)	–	(12,584)
Acquisition of non-controlling interest	–	–	–	–	–	(544)	(544)	(3,898)	(4,442)
Equity-settled share-based payments	–	–	–	117	–	–	117	–	117
Transfer to statutory reserve	–	–	–	–	222	(222)	–	–	–
At 30 June 2016 (Audited)	<u>–</u>	<u>–</u>	<u>9,557</u>	<u>117</u>	<u>3,077</u>	<u>15,436</u>	<u>28,187</u>	<u>–</u>	<u>28,187</u>
At 1 January 2017 (Audited)	–	–	9,557	333	3,258	8,666	21,814	–	21,814
Loss and total comprehensive loss for the period	–	–	–	–	–	(471)	(471)	–	(471)
Placing of shares	886	30,136	–	–	–	–	31,022	–	31,022
Issuance of shares by capitalization	2,714	(2,714)	–	–	–	–	–	–	–
Transaction costs for placing and capitalization issue of shares	–	(6,522)	–	–	–	–	(6,522)	–	(6,522)
Equity-settled share-based payments	–	–	–	200	–	–	200	–	200
Transfer to statutory reserve	–	–	–	–	163	(163)	–	–	–
At 30 June 2017 (Unaudited)	<u>3,600</u>	<u>20,900</u>	<u>9,557</u>	<u>533</u>	<u>3,421</u>	<u>8,032</u>	<u>46,043</u>	<u>–</u>	<u>46,043</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Net cash (used in)/generated from operating activities	(7,947)	479
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(600)	(62)
Interest received	238	14
Net cash used in investing activities	(362)	(48)
Cash flows from financing activities		
Net proceeds from placing of the Company's shares	24,500	—
Repayment of the amount due to a related company	(2,714)	—
Acquisition of non-controlling interest	—	(4,442)
Proceeds from issuance of new shares by a subsidiary	—	12,584
Payment for repurchase of shares by the Company	—	(12,584)
Distributions paid to a former non-controlling shareholder of a subsidiary	—	(756)
Interest payments	(528)	(588)
Net cash generated from financing activities	21,258	(5,786)
Net increase/(decrease) in cash and cash equivalents	12,949	(5,355)
Cash and cash equivalents at beginning of period	3,858	14,716
Cash and cash equivalents at end of period	16,807	9,361

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 13 January 2016 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares have been listed on the GEM of the Stock Exchange since 13 January 2017. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350 Grand Cayman KY1-1108, Cayman Islands and its principal place of business is 66 Oujiang Road, Haimen Economic Development Zone, Nantong City, the Jiangsu Province, the People's Republic of China (the "PRC").

The Company is an investment holding company and its subsidiaries are principally engaged in the research and development, production and sales of fibreglass reinforced plastic products in the PRC. During the six months ended 30 June 2017, the principal business was carried out through Nantong Meigu Composite Materials Company Limited ("Nantong Meigu"), which is an indirect wholly-owned subsidiary of the Company incorporated in the PRC.

2. BASIS OF PRESENTATION

Pursuant to a group reorganisation of the Company in connection with the listing of its shares on the Stock Exchange (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 16 March 2016.

Details of the Reorganisation are set out in the paragraphs headed "Reorganisation" on pages 52 to 54 of the 2016 annual report of the Group. The Group is under the common control of the controlling shareholders of the Company prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The unaudited condensed consolidated results of the Group have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the six months ended 30 June 2016.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's unaudited consolidated results for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The HKICPA has issued a number of amendments to the Hong Kong Financial Reporting Standards which are effective for the current accounting period of the Group. None of those developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Accordingly, no prior period adjustments are required.

The accounting policies adopted in preparing the unaudited consolidated results for the six months ended 30 June 2017 are consistent with those adopted in the financial statements of the Group for the year ended 31 December 2016.

The consolidated results of the Group for the six months ended 30 June 2017 are unaudited but have been reviewed by the audit committee of the Company.

4. REVENUE

The principal activities of the Group are research and development, production and sale of fiberglass reinforced plastic products in the PRC.

Revenue represents net invoiced value of goods sold, less value-added and sales taxes, returns and discounts, during the period.

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Sales of fiberglass reinforced plastic				
– fiberglass reinforced plastic (“FRP”) grating	11,549	13,007	19,935	21,531
– United States Coast Guard (“USCG”) approved phenolic grating	3,652	2,489	4,813	4,886
– FRP subway evacuation platform	1,713	67	1,713	67
– epoxy wedge strip	2,473	920	4,634	1,397
	<u>19,387</u>	<u>16,483</u>	<u>31,095</u>	<u>27,881</u>

In a manner consistent with the way in which information is reported internally to the Company's directors for the purposes of resource allocation and performance assessment, no segment information is presented in respect of the Group's operating segment as the Group is principally engaged in one segment in the research and development, production and sales of fiberglass reinforced plastic products in the PRC.

The geographical locations of property, plant and equipment, and leasehold land are based on the physical location of the asset under consideration. During the above periods, all property, plant and equipment, and leasehold land were located in the PRC.

5. OTHER REVENUE AND OTHER NET INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Other revenue				
Interest income on bank deposits	4	9	5	14
Government Grants	–	8	40	8
Sundries	–	–	72	–
	<u>4</u>	<u>17</u>	<u>117</u>	<u>22</u>
	4	17	117	22
Other net income				
Net foreign exchange gain	–	93	77	123
Reversal of impairment loss on trade and bills receivables	–	336	–	380
	<u>–</u>	<u>429</u>	<u>77</u>	<u>503</u>
	–	429	77	503

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the following items:

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
(a) Finance costs				
Interest on bank borrowings	<u>264</u>	<u>294</u>	<u>525</u>	<u>588</u>
(b) Staff costs (including directors' emoluments)				
Salaries, wages and other benefits	2,792	2,392	4,920	4,177
Contributions to defined contribution retirement plans	243	371	551	666
Equity-settled share-based payments	<u>100</u>	<u>100</u>	<u>200</u>	<u>117</u>
	<u>3,135</u>	<u>2,863</u>	<u>5,671</u>	<u>4,960</u>
(c) Other items				
Amortisation prepaid lease payments	10	10	19	19
Reversal of impairment loss on trade and bills receivables	–	(336)	–	(380)
Depreciation for property, plant and equipment	436	450	869	900
Cost of inventories recognise as expense (note (i))	12,527	10,786	20,023	18,352
Research and development costs (note (ii))	<u>596</u>	<u>269</u>	<u>935</u>	<u>538</u>

Notes:

- (i) Cost of inventories recognised as expenses include RMB2,769,000 (6 months ended 30 June 2016: RMB2,753,000) relating to staff costs, and RMB485,000 (6 months ended 30 June 2016: RMB500,000) relating to depreciation for property, plant and equipment, the amounts of which are also included in the total amount disclosed separately above for each of these types of expenses.
- (ii) Included in the research and development costs is staff cost of RMB450,000 (6 months ended 30 June 2016: RMB390,000) the amount of which is also included in the total amount separately disclosed for this type of expense.

7. INCOME TAX IN THE CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax recognised in profit or loss:

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Current tax				
PRC Enterprise Income Tax ("EIT") on profits of the Group's subsidiary	<u>640</u>	<u>879</u>	<u>744</u>	<u>1,033</u>
Deferred tax				
Origination and reversal of temporary differences in respect of				
– reversal of impairment loss on trade and bills receivables	<u>–</u>	<u>84</u>	<u>–</u>	<u>95</u>
– withholding tax on distributable profits of the Group's PRC subsidiary	<u>134</u>	<u>144</u>	<u>406</u>	<u>396</u>
	<u>134</u>	<u>228</u>	<u>406</u>	<u>491</u>
	<u>774</u>	<u>1,107</u>	<u>1,150</u>	<u>1,524</u>

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

Nantong Meigu, a PRC subsidiary, is subject to PRC EIT at 25%. Dividends declared to Prosperous Composite Material Co., Ltd., as a non-resident shareholder of Nantong Meigu, in respect of profits earned by Nantong Meigu, are subject to PRC withholding tax at 10%.

(b) **Reconciliation between tax expense and accounting profit at applicable tax rates:**

	For the three months ended 30 June		For the six months ended 30 June	
	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Audited)
Profit before taxation	3,306	1,746	679	415
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	640	910	744	1,075
Tax effect of non-deductible expenses	–	(224)	–	(224)
Under-provision in prior year	–	277	–	277
Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiary	134	144	406	396
Actual tax expense	774	1,107	1,150	1,524

8. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2017 (6 months ended 30 June 2016: Nil).

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share attributable to owners of the Company is based on the following data:

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Profit/(Loss) attributable to owners of Company for the purpose of calculating basic loss per share (RMB'000)	<u>2,532</u>	<u>639</u>	<u>(471)</u>	<u>(1,182)</u>
Number of shares				
Weighted average number of ordinary shares for the purpose of basic loss per share ('000)	<u>400,000</u>	<u>300,000</u>	<u>393,889</u>	<u>300,000</u>

The number of ordinary shares for the purpose of calculating basic earnings/(loss) per share has been retrospectively adjusted for the capitalisation issue of 299,999,250 shares of the Company completed on 12 January 2017 and assuming the Reorganization had been effective on 1 January 2016.

No diluted earnings/(loss) per share was presented as there was no potential ordinary shares outstanding in the above periods.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Trade receivables	42,399	38,076
Less: allowance for doubtful debts	(1,445)	(1,445)
	40,954	36,631
Bills receivables	–	1,964
	40,954	38,595
Trade and bills receivables, net	40,954	38,595
Other receivables	529	775
Prepayments and deposits	166	5,079
Current portion of leasehold land held for own use under an operating lease	38	38
	41,687	44,487

All of the trade and other receivables are expected to be recovered and or recognised as expenses within one year or repayment on demand. Included in the prepayments and deposits is prepaid listing expenses of RMB4,968,000 as at 31 December 2016, which was, upon the listing of the Company's shares on the Stock Exchange, charged to equity and deducted against the proceeds raised from the listing.

An ageing analysis of trade and bills receivables (net of allowance for doubtful debts), based on the invoice date, is as follows:

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
0 – 30 days	9,708	10,311
31 – 90 days	9,610	13,547
91 – 180 days	6,719	6,983
181 – 365 days	9,181	4,919
Over 365 days	5,736	2,835
	40,954	38,595

The Group generally granted credit terms to its customers ranging from cash on delivery to 180 days after invoice date.

11. TRADE AND OTHER PAYABLES

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Trade payables	8,712	10,084
Other payables	3,941	11,785
	<u>12,653</u>	<u>21,869</u>

The following is an analysis of trade payables by age based on the invoice date:

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
0 – 30 days	4,212	3,335
31 – 90 days	2,932	3,765
91 – 180 days	666	1,597
181 – 365 days	902	1,387
	<u>8,712</u>	<u>10,084</u>

All of the trade and other payables are expected to be settled or recognised as income within one year or repayable on demand.

12. SHARE CAPITAL

	Number of shares		Nominal value	
	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017 HK\$	As at 31 December 2016 HK\$
Authorised:				
Ordinary shares of HK\$0.01 each	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>
Issued and fully paid				
Ordinary shares of HK\$0.01 each	<u>400,000,000</u>	<u>750</u>	<u>4,000,000</u>	<u>8</u>

Movements in the issued share capital of the Company during the periods are as follows:

	6 months ended 30 June 2017		6 months ended 31 December 2016	
	Number of shares	Nominal value	Number of shares	Nominal value
	(Unaudited)	(Unaudited) (HK\$)	(Audited)	(Audited) (HK\$)
Balance at the beginning of the reporting period	750	8	750	8
Placing of shares (<i>Note</i>)	100,000,000	1,000,000	–	–
Issuance of shares by capitalization (<i>Note</i>)	299,999,250	2,999,992	–	–
Balance at the end of the reporting period	<u>400,000,000</u>	<u>4,000,000</u>	<u>750</u>	<u>8</u>

Note: On 12 January 2017, the Company issued 100,000,000 new shares of HK\$0.01 each by way of placing at the placing price of HK\$0.35 per share, and 299,999,250 new shares by way of capitalisation of an aggregated amount of approximately RMB2,714,000 (equivalent to HK\$2,999,992) out of the share premium account of the Company, in connection with the initial listing of the Company's shares on the GEM of the Stock Exchange on 13 January 2017.

13. RELATED PARTY TRANSACTIONS

Remuneration for key management personnel of the Group, including amounts paid to the directors and certain of the highest paid employees is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB\$'000 (Unaudited)	RMB\$'000 (Audited)
Short-term employee benefits	245	206	553	409
Post-employment benefits	40	41	80	81
Equity-settled share-based payments	<u>100</u>	<u>116</u>	<u>200</u>	<u>133</u>
	<u>385</u>	<u>363</u>	<u>833</u>	<u>623</u>

The above related party transactions were entered into in the ordinary course of business.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is an established and leading manufacturer in the PRC engaged in the research and development, production and sale of a variety of FRP products. The Group's major products consist of: (i) FRP Grating products; (ii) USCG Approved Phenolic Grating products; (iii) FRP Subway Evacuation Platform products; and (iv) Epoxy Wedge Strip products. A new product line, composite crossties for use in railways has been developed and will be rolled out for commercial production in the second half year of 2017.

On 13 January 2017, the shares of the Company (the "Shares") were successfully listed on the GEM of the Stock Exchange which marked a significant milestone for the Group. In addition, the net proceeds amounting to approximately HK\$16.5 million from placing of 100,000,000 Shares will be applied in the enhancement of the existing production process and purchase of new production equipment, further development of new products and expansion of research and development capabilities. At the same time, this additional financing channel will provide strong financial support to the sustainable development of the Group.

Looking ahead, despite the slowdown of the PRC's macro-economic conditions, it is expected that the FRP Grating products market in the PRC will continue to develop, but in a slower pace. In spite of such, given that the market acceptance of the USCG Approved Phenolic Grating products and FRP Subway Evacuation Platform products in the PRC is growing, it is expected that the market scale will further expand at a compound annual growth rate ("CAGR") of 15.5% from 2015 to 2019. The application of Epoxy Wedge Strip products in wind turbine blades is a relatively new concept in the PRC with growing acceptance among customers and hence it is estimated that the application will continue to grow at a CAGR of 17.7% from 2015 to 2019. The Group will continue to expand customer base and enhance product recognition by improving production technique and developing new products, so as to exercise more effective cost control and strengthen the competitiveness of the Group. Meanwhile, the Group will recruit more talents to fulfil its development needs to support and expand its business.

Financial Review

The Group posted a consolidated revenue of approximately RMB31.1 million for the six months ended 30 June 2017, representing an increase of approximately RMB3.2 million or 11.5% as compared to the corresponding six months in 2016. The increase in revenue was primarily driven by the increase in sales revenue generated from sales of FRP Subway Evacuation Platform products and Epoxy Wedge Strip products.

Details of the Group's revenue and gross profit margin by product categories are as follows:

	For the six months ended 30 June 2017		For the six months ended 30 June 2016	
	Sales revenue RMB'000	Gross profit margin %	Sales revenue RMB'000	Gross profit margin %
FRP Grating products	19,935	33.6	21,531	32.8
USCG Approved Phenolic Grating products	4,813	39.2	4,886	37.5
FRP Subway Evacuation Platform products	1,713	29.0	67	22.4
Epoxy Wedge Strip products	4,634	43.0	1,397	44.0
	<u>31,095</u>	<u>35.6</u>	<u>27,881</u>	<u>34.2</u>

For the six months ended 30 June 2017, sales of FRP Grating products remained the largest contributor to the Group's revenue and it accounted for approximately 64.1% (6 months ended 30 June 2016: 77.2%) of the total revenue. FRP Grating products were mainly sold to corporate customers in the PRC who generally are end-users of such products, as well as distributors in the United States of America ("U.S.") and the United Kingdom ("U.K.") who generally buy the products on per purchase order basis with no distribution arrangement. Revenue derived from sales of FRP Grating products reduced by approximately 7.4% from approximately RMB21.5 million for the six months ended 30 June 2016 to approximately RMB19.9 million for the six months ended 30 June 2017. This was mainly attributable to the reduction in sales to one of the major customers in the U.S.. There was no notable fluctuation in the gross profit margin on comparison between the two periods.

USCG Approved Phenolic Grating products were generally sold to shipbuilders and offshore oilfields construction companies in the PRC. Revenue generated from sales of USCG Approved Phenolic Grating products has only reduced slightly by 1.5% from approximately RMB4.9 million for the six months ended 30 June 2016 to approximately RMB4.8 million for the six months ended 30 June 2017. The gross profit margin increased by 1.7% from 37.5% for the six months ended 30 June 2016 to 39.2% for the six months ended 30 June 2017. This was primarily due to the increased level of complexity in the cutting technique which allows an increase in the average selling price of this product category. In addition, there has also been a reduction in the purchase cost for one of the common raw materials for all the FRP products. Both of these two factors have contributed to the increase in gross profit margin of this product category.

FRP Subway Evacuation Platform Products were sold to main contractors who are principally engaged in railway construction works in the PRC. Revenue derived from sales of FRP Subway Evacuation Platform Products increased drastically by over 2,000% from approximately RMB67,000 for the six months ended 30 June 2016 to approximately RMB1.7 million for the six months ended 30 June 2017. The extremely low level of sales in the six months ended 30 June 2016 was mainly because of the delay in the progress of railway construction projects undertaken by the customers whereas the resumption of the railway construction projects during the six months ended 30 June 2017 accounts for the substantial increase in sales of this product category. The gross profit margin increased by 6.6% from 22.4% for the six months ended 30 June 2016 to 29.0% for the six months ended 30 June 2017. This was primarily due to the fact that the increase in sales and production volume had lowered the fixed costs of production per unit.

Epoxy Wedge Strip products were developed and launched in 2014 which targeted manufacturers of wind turbine blades in the PRC. The revenue derived from sales of Epoxy Wedge Strip products increased substantially by approximately RMB3.2 million or 231.7% from approximately RMB1.4 million for the six months ended 30 June 2016 to approximately RMB4.6 million for the six months ended 30 June 2017. This drastic increase was mainly due to the fact that some new domestic customers placing orders for such products were only secured in July 2016 and hence the sales revenue generated during the six months ended 30 June 2016 was very low compared to that of the six months ended 30 June 2017. The gross profit margin reduced by only 1% from 44.0% for the six months ended 30 June 2016 to 43.0% for the six months ended 30 June 2017. This is largely attributable to the difference in shapes, weight and dimensions of the product which cause the fluctuation of its gross profit margin.

Details of the average selling price and the sales volume by product categories are as follows:

	For the six months ended 30 June 2017		For the six months ended 30 June 2016	
	Average selling price per unit RMB	Volume	Average selling price per unit RMB	Volume
FRP Grating products (m ²)	272.2	73,243	271.3	79,363
USCG Approved Phenolic Grating products (m ²)	578.2	8,325	536.5	9,106
FRP Subway Evacuation Platform products (m ²)	349.6	4,900	854.7	78
Epoxy Wedge Strip products (m)	48.7	95,159	15.0	92,845

The average selling price of the FRP Grating products per square metre (“m²”) increased slightly by 0.33% from RMB271.3 per m² for the six months ended 30 June 2016 to RMB272.2 per m² for the six months ended 30 June 2017, with a reduction in sales volume of 7.7% on comparison between the two periods. The increase in average selling price was mainly due to normal fluctuation in prices of different FRP Grating products and the variation in the composition of higher priced FRP Grating products sold.

The average selling price of the USCG Approved Phenolic Grating products per m² increased by 7.8% from RMB536.5 per m² for the six months ended 30 June 2016 to RMB578.2 per m² for the six months ended 30 June 2017, with a reduction in sales volume of 8.6% on comparison between the two periods. The increase in average selling price was mainly due to the increased level of complexity in the cutting technique which allows an increase in the average selling price of this product category.

The average selling price of the FRP Subway Evacuation Platform products per m² reduced by 59.1% from RMB854.7 per m² for the six months ended 30 June 2016 to RMB349.6 per m² for the six months ended 30 June 2017, with a substantial increase in sales volume of over 60 times on comparison between the two periods. The reduction in average selling price was mainly due to the difference in specification for the same product type, which allowed the Group to charge a higher average selling price in the six months ended 30 June 2016.

The average selling price of the Epoxy Wedge Strip products per metre (“m”) increased substantially by over 220% from RMB15.0 per m for the six months ended 30 June 2016 to RMB48.7 per m for the six months ended 30 June 2017, with an increase in sales volume of 2.5% on comparison between the two periods. This drastic increase in average selling price was mainly due to the substantial increase in sale of product items with different shape, weight and dimensions which procured higher average selling price.

Details of the Group’s sale revenue by geographical area are as follows:

	For the six months ended 30 June	
	2017	2016
	<i>RMB’000</i>	<i>RMB’000</i>
PRC	19,644	14,693
U.S.	4,885	7,330
U.K.	5,087	4,553
Others	1,479	1,305
Total	31,095	27,881

Sales in the PRC market increased by 33.7% from approximately RMB14.7 million for the six months ended 30 June 2016 to approximately RMB19.6 million for the six months ended 30 June 2017, mainly because of the increase in the number of new domestic customers during the six months ended 30 June 2017.

Sales to the U.S. market decreased by 33.4% from approximately RMB7.3 million for the six months ended 30 June 2016 to approximately RMB4.9 million for the six months ended 30 June 2017, mainly because of the decrease in sales to one of the major customers in the U.S.

Sales to the U.K. market increased by 11.7% from approximately RMB4.6 million for the six months ended 30 June 2016 to approximately RMB5.1 million for the six months ended 30 June 2017, mainly because of certain new customers secured in the six months ended 30 June 2017.

Sales to the other locations increased by 13.3% from approximately RMB1.3 million for the six months ended 30 June 2016 to approximately RMB1.5 million for the six months ended 30 June 2017, mainly because of new customers acquired in Korea and Uruguay.

Selling and Distribution Costs

The selling and distribution costs increased by approximately RMB610,000, a 23.3% increase to approximately RMB3.2 million for the six months ended 30 June 2017 from approximately RMB2.6 million for the six months ended 30 June 2016. The increase was mainly attributed to the increase in staff costs and exhibition fees.

Administrative Expenses

The administrative expenses increased by approximately RMB402,000, a 6.2% increase to approximately RMB6.8 million for the six months ended 30 June 2017 from approximately RMB6.4 million for the six months ended 30 June 2016. The increase was mainly attributed to the increase in research and development expenses, staff costs and legal and professional fees.

Finance Costs

Finance costs decreased by approximately RMB63,000 to approximately RMB525,000 for the six months ended 30 June 2017 from approximately RMB588,000 for the six months ended 30 June 2016. The decrease was mainly due to the general reduction in the bank interest rates during the six months ended 30 June 2017.

Loss for the Period

Loss for the six months ended 30 June 2017 amounting to approximately RMB471,000 was mainly attributable to the once-off listing related expenses of approximately RMB1.9 million for the public relation activities, publication of prospectus and other expenses incidental to the listing of the Company's shares on the GEM of the Stock Exchange.

Liquidity and financial resources

As at 30 June 2017, the Group held total assets of approximately RMB83.4 million (31 December 2016: approximately RMB70.0 million), including cash and cash equivalents of approximately RMB16.8 million (31 December 2016: approximately RMB3.9 million).

As at 30 June 2017, the Group had total liabilities of approximately RMB37.4 million (31 December 2016: approximately RMB48.2 million) which mainly comprise of bank borrowings amounting to approximately RMB20 million (31 December 2016: approximately RMB20 million).

As at 30 June 2017, the gearing ratio, expressed as a percentage of net debt (bank borrowings less cash and cash equivalents) over total capital employed (net debt plus total equity attributable to owners of the Company) was about 6.5% (31 December 2016: 42.5%). This significant reduction was mainly attributable to the strengthening of the Company's capital base resulting from the placing of the Company's shares as discussed in the section "Capital Structure" below.

Capital Structure

On 12 January 2017, the Company issued 100,000,000 new Shares of HK\$0.01 each by way of placing at the placing price of HK\$0.35 per share (the "Placing"), and 299,999,250 new Shares by way of capitalisation of an aggregate amount of approximately RMB2,714,000 (equivalent to HK\$2,999,992) out of the share premium account of the Company, in connection with the initial listing of the Company's Shares on the GEM of the Stock Exchange on 13 January 2017.

Total equity attributable to equity holders of the Company increased by approximately 111.1% from RMB21,814,000 as at 31 December 2016 to RMB46,043,000 as at 30 June 2017 as a result of the Placing.

Contingent liabilities

As at 30 June 2017, the Group had no contingent liabilities (31 December 2016: Nil).

Exposure to fluctuations in exchange rates and related hedges

The Group is exposed to foreign exchange risk primarily through sales which give rise to receivables and cash balances that are denominated in US dollars, which is attributable to sales transactions entered into by the Group with overseas customers. The Group has adopted the following measures to mitigate the exposure to foreign exchange risk:

- (i) the accounting and finance department would closely monitor the movement of relevant exchange rates to ensure that the net exposure is kept to an acceptable level;
- (ii) quotations provided to our overseas customers are generally valid for one to three months only;

- (iii) in the event that the relevant exchange rates fluctuate more than 5.0%, the Director and senior management would be notified such that appropriate actions could be carried out in a timely manner to address any foreign exchange risks;
- (iv) if the fluctuation in the relevant exchange rates exceeds 8.0% for more than two months, the pricing policy would be adjusted accordingly to reflect such change; and
- (v) the Directors would regularly review the analysis prepared by the accounting and finance department and assess whether there is any material and adverse impact on the Group's financial performance and whether any hedging or derivative financial instruments should be entered into for managing the foreign exchange risk exposures.

In addition to the above, the Group is generally able to pass on the cost arising from exchange rate fluctuations to the customers by adjusting the pricing. Hence, it is considered that the Group's exposure to foreign exchange risk is limited and it is not necessary to adopt any hedging strategy.

Charge on Group Assets

As at 30 June 2017, the Group had the following charges on its assets:

- (i) the leasehold land held for own use under operating lease with a carrying value of RMB1,493,000 as at 30 June 2017 (31 December 2016: RMB1,512,000) and the buildings with a carrying value of RMB9,017,000 as at 30 June 2017 (31 December 2016: RMB9,335,000) were pledged for a bank borrowing RMB10,000,000;
- (ii) An aggregate amount of RMB2,373,000 (31 December 2016: RMB513,000) was placed in a bank account and pledged in favour of customers in relation to some sales transactions.

Material Acquisition and Disposal

There was no acquisition and disposal of subsidiaries and associated company by the Group during the six months ended 30 June 2017.

Employees, Remuneration policies

As at 30 June 2017, the Group had 148 employees (31 December 2016: 124). The total staff costs including Directors' remuneration for the six months ended 30 June 2017 were approximately RMB5.7 million (six months ended 30 June 2016: approximately RMB5.0 million). Remuneration is determined based on each employee's qualifications, position and seniority. In addition to a basic salary, year-end discretionary bonuses were offered with reference to our Group's performance as well as individual's performance to attract and retain appropriate and suitable personnel to serve the Group. Furthermore, the Group offers other staff benefits like provision of retirement benefits, various types of trainings and sponsorship of training courses. The Group also adopts an annual review system to assess the performance of staff, which forms the basis of decisions with respect to salary rises and promotions.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLAN

As the Company's Shares were listed on 13 January 2017, the Group was at its first half year of implementing its business objectives and strategies during the six months ended 30 June 2017. An analysis comparing the business objectives set out in the prospectus of the Company dated 29 December 2016 with the Group's actual implementation progress during the six months ended 30 June 2017 is as follows:

Business objective	Planned use of proceeds (HK\$'000)	Actual use of proceeds (HK\$'000)
1. The enhancement of the existing production processes, and acquisition of new production facilities		
- Enhancement of the existing pultrusion equipment and associated resin basins and pre-pre-form machine to improve product quality and optimize production costs	700	700
- Purchase hydraulic presses to produce the parts for the FRP Subway Evacuation Platform products	2,400	— (Note 1)
- Automation of the cutting process of the pultrusion production process to improve the cutting precision level and reduce labour costs	600	600

Business objective	Planned use of proceeds (HK\$'000)	Actual use of proceeds (HK\$'000)
2. The further development of the products according to the expected growth trend as a result of the PRC's macroeconomic policies in promoting "Belt and Road Initiatives"		
- Redefine the features and characteristics of the new FRP crosstie products via communication with the existing and potential customers and conduct trial production	900	780
- Development of the relevant quality control and testing equipment of the new FRP crosstie products	200	190
3. Enhancement of the research and development capabilities by		
- procurement of testing equipment and raw materials for the existing product portfolio	300	300
- recruitment of additional research and development staff	300	13 (Note 2)
4. General working capital		
- Deployment of funds to accommodate the working capital needs, in particular relating to the upcoming production of the new FRP crosstie products	1,100	1,100
	<u>6,500</u>	<u>3,683</u>

Notes:

- (1) Due to the rescheduling of the production plan for the cable scaffold of the FRP Subway Evacuation Platform products, acquisition of hydraulic presses will be deferred to the second half year of 2017.
- (2) During the six months ended 30 June 2017, there was only one additional research and development staff hired in May 2017. The Group will continue to seek for suitable employees with appropriate calibre in the second half year of 2017 so as to enhance the research and development capabilities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) pursuant to section 352 of the SFO to be entered in the register referred to therein pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors and to be notified to the Company and the Stock Exchange were as follows:

(i) Long position in the Shares

Name	Capacity/Nature of interest	Number of shares held/interested in	Percentage of interest in the Company
Mr. Jiang Guitang (“Mr. Jiang”) (Notes 1 and 2)	interest held jointly with other persons; interest in a controlled corporation	300,000,000	75%

Notes:

1. Mr. Jiang beneficially owns 100% of the entire issued share capital of Singa Dragon International Ventures Limited (“Singa”). Therefore, Mr. Jiang is deemed, or taken to be, interested in all the Company’s shares held by Singa for the purposes of the SFO. Mr. Jiang is the Chief Executive Officer of the Company.
2. Pursuant to the concert party deed (the “Concert Party Deed”) entered into among Mr. Shen Weixing (“Mr. Shen”), Mr. Jiang, Munsing Developments Limited (“Munsing”) and Singa dated 16 December 2016, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Repurchases) since 1 January 2014, and that Mr. Shen, Mr. Jiang, Munsing and Singa are parties acting in concert in the course of the Reorganisation and until the date of any written termination by them. As such, Mr. Jiang, together with Mr. Shen, Munsing and Singa together control 75% of the entire share capital of the Company.

(ii) Long position in the ordinary shares of associated corporations

Name of director	Position in the associated corporations	Percentage of interest in the associated corporation
Mr. Jiang	Director of Singa	100% in Singa

DIRECTOR'S RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this announcement, at no time during the six months ended 30 June 2017 was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the Directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the six months ended 30 June 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2017, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name	Capacity/Nature of interest	Number of shares held/interested in	Percentage of interest in the Company
Mr. Shen (Notes 1 and 2)	interest held jointly with other persons; interest in a controlled corporation	300,000,000	75%
Munsing (Notes 1 and 2)	interest held jointly with other persons; beneficial owner	300,000,000	75%
Singa (Note 2)	interest held jointly with other persons; beneficial owner	300,000,000	75%
Ms. Gong Hui (Note 3)	interest of spouse	300,000,000	75%
Ms. Chen Lijuan (Note 4)	interest of spouse	300,000,000	75%

Notes:

1. Mr. Shen beneficially owns 100% of the entire issued share capital of Munsing. Therefore, Mr. Shen is deemed, or taken to be, interested in all the Company's shares held by Munsing for the purposes of the SFO.

2. Pursuant to the Concert Party Deed, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Repurchases) since 1 January 2014, and that Mr. Shen, Munsing, Singa and Mr. Jiang are parties acting in concert in the course of the Reorganisation and until the date of any written termination by them, As such, Mr. Shen, Munsing, Singa and Mr. Jiang together control 75% of the entire share capital of the Company.
3. Ms. Gong Hui is the spouse of Mr. Shen and is deemed or taken to be interested in all the Company's shares in which Mr. Shen has, or is deemed to have, an interest for the purpose of the SFO.
4. Ms. Chen Lijuan is the spouse of Mr. Jiang and is deemed or taken to be interested in all the Company's shares in which Mr. Jiang has, or is deemed to have, an interest for the purpose of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the six months ended 30 June 2017, the Group did not enter into any transactions which need to be disclosed as connected transactions or continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

Details of the material related party transactions are set out in note 13 of this result announcement. These related party transactions did not constitute connected transactions or continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Save for disclosed in this announcement, during the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

The Directors confirm that none of the controlling shareholders, namely Mr. Shen, Mr. Jiang, Munsing and Singa, the Directors and their respective close associates (as defined in the GEM Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the six months ended 30 June 2017 and up to the date of this result announcement.

INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Group has appointed KGI Capital Asia Limited as the compliance adviser (the "Compliance Adviser") for the provision of advice and guidance to the Group in respect of compliance with the applicable laws and the GEM Listing Rules including various requirements relating to directors' duties and internal controls. Except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 14 March 2016, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' dealing in securities of the Company. The Company's Directors have complied with such code of conduct and the required standard of dealings for the six months ended 30 June 2017 up to the date of this announcement.

CORPORATE GOVERNANCE CODE

The Directors consider that since the Shares were listed on 13 January 2017, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 16 December 2016 with written terms of reference based on the code provisions of the Corporate Governance Practice of the GEM Listing Rules. The audit committee comprises of three members, namely Mr. Ng Sai Leung, Tam Tak Kei Raymond, and Mr. Huang Xin, all being independent non-executive Directors. Mr. Ng Sai Leung currently serves as the chairman of the audit committee.

The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance. The Group's unaudited results for the six months ended 30 June 2017 have been reviewed by the audit committee.

By order of the Board
MEIGU Technology Holding Group Limited
Jiang Guitang
Executive Director

Hong Kong, 10 August 2017

As at the date of this announcement, the executive Directors are Mr. Jiang Guitang, Mr. Cheng Dong and Ms. Shi Dongying and the independent non-executive Directors are Mr. Huang Xin, Mr. Tam Tak Kei Raymond and Mr. Ng Sai Leung.

This announcement will remain on the Stock Exchange's website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from the date of its posting and on the website of the Company at nantongrate.com