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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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 board (the "Board") of directors (the "Directors") of MEIGU Technology Holding Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINAL RESULTS

The Board presents the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	**2017** *RMB'000*	2016 *RMB'000*
Revenue	*4*	**68,188**	63,278
Cost of sales		**(43,594)**	(38,942)
Gross profit		**24,594**	24,336
Other revenue	*5*	**1,918**	112
Other net (loss)/income	*5*	**(1,034)**	1,040
Distribution costs		**(6,661)**	(5,667)
Listing expenses	*7(c)*	**(1,343)**	(14,382)
Administrative expenses		**(12,409)**	(8,123)
Profit/(loss) from operations		**5,065**	(2,684)
Finance costs	*7(a)*	**(1,122)**	(1,127)
Profit/(loss) before taxation	*7*	**3,943**	(3,811)
Income tax	*8(a)*	**(3,260)**	(3,887)
Profit/(loss) for the year		**683**	(7,698)
Other comprehensive income for the year		**–**	–
Total comprehensive income/(loss) for the year		**683**	(7,698)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	**2017** **RMB'000**	2016 *RMB'000*
Profit/(loss) for the year attributable to:			
Owners of the Company		**683**	(7,771)
Non-controlling interest		**–**	73
		683	(7,698)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**683**	(7,771)
Non-controlling interest		**–**	73
		683	(7,698)
		RMB cents	*RMB cents*
Earnings/(loss) per share			
Basic and diluted	*9*	**0.17**	(2.59)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	**2017** **RMB'000**	2016 *RMB'000*
Non-current assets			
Property, plant and equipment		**14,549**	14,536
Leasehold land held for own use under operating lease		**1,436**	1,474
Pledged bank deposits		**–**	113
Deferred tax assets		**390**	361
		16,375	16,484
Current assets			
Inventories		**8,337**	3,270
Property held for sale		**1,468**	1,468
Trade and other receivables	*10*	**52,040**	44,487
Pledged bank deposits		**1,059**	400
Cash and cash equivalents		**11,324**	3,858
		74,228	53,483
Current liabilities			
Trade and other payables	*11*	**18,280**	21,869
Bank borrowings	*12*	**20,000**	20,000
Amount due to a shareholder	*13(b)(i)*	**–**	2,714
Income tax payable		**2,397**	1,758
		40,677	46,341
Net current assets		**33,551**	7,142
Total assets less current liabilities		**49,926**	23,626
Non-current liabilities			
Deferred tax liabilities		**2,529**	1,812
NET ASSETS		**47,397**	21,814
CAPITAL AND RESERVES			
Share capital		**3,600**	–
Reserves		**43,797**	21,814
Total equity attributable to owners of the Company		**47,397**	21,814
Non-controlling interest		**–**	–
TOTAL EQUITY		**47,397**	21,814

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company									
		Reserves								
	Share capital	Share premium	Capital reserve	Share-based payment services	Statutory reserve	Retained profits	Sub-total	Total	Non-controlling interest	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	–	–	9,557	–	2,855	17,384	29,796	29,796	3,825	33,621
Profit and total comprehensive income for the year	–	–	–	–	–	(7,771)	(7,771)	(7,771)	73	(7,698)
Issuance of shares	–	–	12,584	–	–	–	12,584	12,584	–	12,584
Repurchase of share	–	–	(12,584)	–	–	–	(12,584)	(12,584)	–	(12,584)
Acquisition of non-controlling interest	–	–	–	–	–	(544)	(544)	(544)	(3,898)	(4,442)
Equity-settled share-based payments	–	–	–	333	–	–	333	333	–	–
Transfer to statutory reserve	–	–	–	–	403	(403)	–	–	–	–
At 31 December 2016	–	–	9,557	333	3,258	8,666	21,814	21,814	–	21,814
At 1 January 2017	**–**	**–**	**9,557**	**333**	**3,258**	**8,666**	**21,814**	**21,814**	**–**	**21,814**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**683**	**683**	**683**	**–**	**683**
Issuance of shares upon listing	**886**	**30,136**	**–**	**–**	**–**	**–**	**30,136**	**31,022**	**–**	**31,022**
Issuance cost	**–**	**(6,522)**	**–**	**–**	**–**	**–**	**(6,522)**	**(6,522)**	**–**	**(6,522)**
Capitalisation issue	**2,714**	**(2,714)**	**–**	**–**	**–**	**–**	**(2,714)**	**–**	**–**	**–**
Equity-settled share-based payments	**–**	**–**	**–**	**400**	**–**	**–**	**400**	**400**	**–**	**400**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**649**	**(649)**	**–**	**–**	**–**	**–**
At 31 December 2017	**3,600**	**20,900**	**9,557**	**733**	**3,907**	**8,700**	**43,797**	**47,397**	**–**	**47,397**

Notes:

1. GENERAL INFORMATION

MEIGU Technology Holding Group Limited (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 Growth Enterprises market of The Stock Exchange of Hong Kong Limited (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, Jiangsu Province, the People's Republic of China (the "PRC").

The Company is an investment holding company and its subsidiaries (together, the "Group") are principally engaged in the research and development, production and sales of fibreglass reinforced plastic products in the PRC. During the reporting periods, 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.

The audited consolidated final results of the Group for the year ended 31 December 2017 are extracted from the Group's audited consolidated financial statements for the year ended 31 December 2017 (the "Financial Statements").

2. BASIS OF PREPARATION

Statement of compliance

The Financial Statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), the collective term of which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. The Financial Statements also comply with the applicable disclosure provisions of the GEM Listing Rules.

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these amendments impact on the accounting policies of the Group.

The Group has not applied any new standards, amendments or interpretations that is not yet effective for the current accounting period.

Basis of preparation of the Financial Statements

The Financial Statements comprise the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Renminbi ("RMB") is the functional currency of all entities of the Group. The Financial Statements are presented in RMB and the figures are rounded to the nearest thousand of RMB ("RMB'000"), except for per share data, because the management evaluates the performance of the Group based on RMB.

The measurement basis used in the preparation of the Financial Statements is the historical cost basis.

The preparation of the Financial Statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and interpretations mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 which are relevant to the Group are as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments revise existing requirements in HKFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) in the case of negative compensation payments (where the lender has to make a settlement payment in the event of termination by the borrower).

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

The directors do not anticipate that the application of the HKFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The directors anticipate that the application of HKFRS15 in the future may result in more disclosures, however, the directors do not anticipate that the application of HKFRS15 will have a material impact on the timing and amount of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. As the Group does not engage in any lease arrangements, it is not expected to be impacted by this new standard.

HK(IFRIC)-Int 22 Foreign Currency Transactions and Advance Consideration

HK(IFRIC)-Int 22 addresses how to determine the "date of transaction" for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The directors of the Company do not anticipate that the application of both interpretations will have a material impact of the Group's financial statements.

Amendments to HKFRS 2 Classification and measurement of Share-based payment transactions

The amendments specifically clarified how market and non-market vesting conditions and non-vesting conditions should be reflected in the measurement of a cash-settled share-based payment transaction.

The directors of the Company do not anticipate that the application of those amendments will have a material impact on the Group's financial statements as the Group does not have any cash-settled share-based payment transactions.

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction. For example, change in use for transfer from properties under development for sale in the ordinary course of business to investment properties could be evidenced by inception of an operating lease to another party. Currently, the Group accounts for such transfer only upon commencement of an operating lease.

The directors anticipate that the application of these amendments will result in early recognition of such transfers on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

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 taxes, returns and discounts, during the year.

	2017	2016
	RMB'000	*RMB'000*
Sales of fiberglass reinforced plastic products		
– fiberglass reinforced plastic grating	**42,043**	48,126
– USCG approved phenolic grating	**8,112**	9,677
– epoxy wedge strip	**9,596**	5,408
– composite subway evacuation platform	**4,067**	67
– fiberglass reinforced plastic crossties	**4,370**	–
	68,188	63,278

5. OTHER REVENUE AND OTHER NET INCOME

	2017	2016
	RMB'000	*RMB'000*
Other revenue		
Interest income on bank deposits	**22**	19
Total interest income on financial assets not at fair value through profit or loss	**22**	19
Government grants and other subsidies *(note below)*	**1,896**	93
	1,918	112
Other net (loss)/income		
Net foreign exchange (loss)/gain	**(916)**	604
(Impairment loss)/reversal of impairment loss on trade and bills receivable	**(118)**	436
	(1,034)	1,040

Note:

Included in government grants and other subsidies was RMB1,700,000 (2016: Nil) representing subsidies received from the PRC government for the successful initial public offering of the Company. There was no unfulfilled conditions attached to these grants and subsidies.

6. SEGMENT REPORTING

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.

(a) Geographic information

The following is an analysis of geographical location of the Group's revenue from external customers. The geographical location of customers refers to the location at which the goods were delivered.

	2017	2016
	RMB'000	*RMB'000*
Local customers		
The PRC (excluding Hong Kong) (place of domicile)	**40,036**	38,058
Foreign customers		
United States of America	**13,349**	13,549
United Kingdom	**8,715**	9,422
Canada	**1,218**	101
South Korea	**982**	285
Kazakhstan	**826**	–
Lithuania	**701**	–
Australia	**666**	–
Uruguay	**357**	–
France	**347**	955
Others	**991**	908
	28,152	25,220
	68,188	63,278

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

(b) Information about major customers

During the years ended 31 December 2017 and 2016, the Group did not have any major customer individually contributing 10% or more of total revenue of the Group.

7. PROFIT/(LOSS) BEFORE TAXATION

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

	2017	2016
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on bank borrowings	**1,122**	1,127
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**10,443**	8,386
Contributions to defined contribution retirement plans	**1,061**	1,566
Equity-settled share-based payments	**400**	333
	11,904	10,285
(c) Other items		
Amortisation for leasehold land	**38**	38
Impairment loss/(reversal of impairment loss) on trade and bills receivables (Note 10(b))	**118**	(436)
Depreciation of property, plant and equipment	**1,717**	1,821
Cost of inventories recognised as expense (Note (i))	**43,594**	38,942
Auditor's remuneration		
– auditor of the Company	**701**	724
– other auditors (Note (ii))	**55**	19
Listing expenses		
– reporting accountant	**–**	2,215
– other professional parties	**1,343**	12,167
	1,343	14,382
Research and development costs (Note (iii))	**(3,541)**	(2,537)

Notes:

(i) Cost of inventories recognised as expenses include RMB5,899,000 (2016: RMB4,894,000) relating to staff costs, and RMB1,034,000 (2016: RMB1,029,000) relating to depreciation of property, plant and equipment, for the year ended 31 December 2017, the amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

(ii) The amounts represent remunerations paid to other auditors of Nantong Meigu for statutory audit service.

(iii) Included in the research and development costs are staff cost of RMB833,000 (2016: RMB666,000) and costs of materials consumed of RMB2,114,000 (2016: RMB1,426,000), the amounts of which are also included in the total amount separately disclosed for each of these types of expenses.

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

(a) Income tax recognised in profit or loss:

	2017	2016
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary		
– current year	**2,601**	2,858
– (over)/under-provision in prior years	**(29)**	277
	2,572	3,135
Deferred tax		
Origination and reversal of temporary differences in respect of		
– (impairment loss)/reversal of impairment loss on trade and bills receivables	**(29)**	109
– withholding tax on distributable profits of a PRC subsidiary of the Group	**717**	643
	688	752
	3,260	3,887

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

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2017 and 2016, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years.

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2016: 25%). Dividends declared to Prosperous Composite Material Co., Ltd, as a non-resident shareholder, in respect of profits earned by Nantong Meigu, is subject to PRC withholding tax at 10%.

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

	2017	2016
	RMB'000	*RMB'000*
Profit/(loss) before taxation	**3,943**	(3,811)
Notional tax on profit attributable to the subsidiaries under the tax jurisdiction of the PRC, calculated at 25%	**2,505**	2,910
(Over)/under-provision in prior years	**(29)**	277
Tax effect of non-deductible expenses	**67**	57
Deferred tax provided for withholding tax on distributable profits of a PRC subsidiary of the Group	**717**	643
Actual tax expense	**3,260**	3,887

9. EARNINGS/(LOSS) PER SHARE

As of 31 December 2016, the Company had 750 ordinary shares in issue. On 13 January 2017, the Company was listed on the Growth Enterprise Market of the Stock Exchange by way of placing of 100,000,000 new shares and capitalisation issue of 299,999,250 new shares, resulting in 400,000,000 ordinary shares in issue. The calculation of the basic earnings/(loss) per share for each of the years ended 31 December 2017 and 2016 is based on the following data:

	2017	2016
	RMB'000	*RMB'000*
Earnings/(loss) for the purpose of basic earnings/(loss) per share		
Profit/(loss) for the year attributable to the owners of the Company	**683**	(7,771)
	'000	*'000*
Number of shares		
Number of shares for the purpose of basic earnings/loss per share at the beginning of the reporting period	**300,000**	300,000
Effect of shares issued under initial public offering	**96,712**	–
Number of shares for the purpose of basic earnings/loss per share	**396,712**	300,000

Basic earnings per share for the year ended 31 December 2017 amounted to 0.17 RMB cent (2016: basic loss per share of 2.59 RMB cent) per share. The number of ordinary shares for the purpose of calculating basic earnings/loss per share has been retrospectively adjusted for the capitalisation issue of the shares of the Company completed on 12 January 2017 and assuming the reorganisation had been effective on 1 January 2016.

No diluted earnings/(loss) per share was presented as there was no potential ordinary shares outstanding during the years ended 31 December 2017 and 2016.

10. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**46,658**	38,076
Less: allowance for doubtful debts	**(1,563)**	(1,445)
	45,095	36,631
Bills receivables (note (e))	**4,214**	1,964
Trade and bills receivables, net (note (a), (b) and (c))	**49,309**	38,595
Other receivables	**849**	775
Prepayments and deposits (note (d))	**1,844**	5,079
Current portion of leasehold land held for own use under an operating lease	**38**	38
	52,040	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.

(a) Ageing analysis

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

	2017	2016
	RMB'000	*RMB'000*
0 – 30 days	**12,171**	10,311
31 – 90 days	**13,301**	13,547
91 – 180 days	**10,212**	6,983
181 – 365 days	**4,230**	4,919
Over 365 days	**9,395**	2,835
	49,309	38,595

The Group generally granted credit terms to its customers ranging from cash on delivery to 180 days after invoice date. As at 31 December 2017, included in the above trade and bills receivables are retention monies of RMB11,186,000 (2016: RMB9,024,000) which are not yet due at the end of the reporting period, but will be due within next year for payments from customers upon the expiry of warranty periods after the date of the customers' acceptance of delivery of goods by the Group.

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

Movements in the allowance for doubtful debts

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**1,445**	1,881
Impairment loss recognised/(reversal of impairment loss)	**118**	(436)
At 31 December	**1,563**	1,445

As at 31 December 2017, trade receivables of the Group amounting to RMB1,563,000 (2016: RMB1,445,000) was determined to be impaired. The impaired receivables were outstanding for over 180 days at the end of the reporting period or were due from customers with financial difficulties. Accordingly, specific allowance for doubtful debts of RMB118,000 (2016: reversal of doubtful debts of RMB436,000) was recognised for the year ended 31 December 2017.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**36,372**	35,602
Past due but not impaired		
Less than 1 month past due	**1,132**	1,135
1 to 3 months past due	**1,941**	637
Over 3 months and less than 1 year past due	**7,784**	690
More than 1 year past due	**2,080**	531
	12,937	2,993
	49,309	38,595

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, financial capabilities of the customers and the subsequent settlements received from the customers, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality or possible default in payment, and the balances are still considered fully recoverable.

On 14 January 2016, in settlement of an overdue trade receivable amounting to RMB1,337,000, a residential property located in Chengdu, the Sichuan Province, the PRC was assigned by the relevant customer to the Group in lieu of payment. According to a valuation report issued by APAC Asset Valuation and Consulting Limited, an independent firm of professional valuers with recognised qualifications and experiences, using the Direct Comparison Approach, the fair value of the property assigned to the Group was RMB2,400,000 as at 31 December 2017, which is greater than the balance of overdue trade receivable of RMB1,337,000 due from the relevant customer at the time of settlement, and thus no impairment is considered necessary.

(d) As at 31 December 2016, included in prepayments and deposits are prepaid listing expenses of RMB4,968,000, which had been charged to share premium account of the Company during the year ended 31 December 2017 as deduction against the proceeds raised from placing of 100,000,000 new shares of HK$0.01 each of the Company at HK$0.35 per placing share in connection with the initial listing of the Company's shares.

(e) As at 31 December 2017, bills receivables of RMB3,400,000 (2016: Nil) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

11. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade and bills payables	**13,381**	10,084
Other payables	**4,899**	11,785
	18,280	21,869

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

	2017	2016
	RMB'000	*RMB'000*
0 – 30 days	**4,800**	3,335
31 – 90 days	**4,938**	3,765
91 – 180 days	**3,230**	1,597
Over 180 days	**413**	1,387
	13,381	10,084

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

12. BANK BORROWINGS

The analysis of the carrying amount of bank borrowings is as follows:

	2017	2016
	RMB'000	*RMB'000*
Fixed rate term loans from banks due for repayment within 1 year or repayable on demand		
Secured *(note (a))*	**20,000**	10,000
Unsecured *(note (b))*	**–**	10,000
	20,000	20,000

Notes:

(a) As at 31 December 2017 and 2016, the bank borrowings were secured by buildings, a leasehold land of the Group. It was further guaranteed by an independent third party guarantee company in the PRC as at 31 December 2017 (2016: Nil).

(b) As at 31 December 2016, the unsecured bank borrowing was guaranteed by an independent third party guarantee company in the PRC.

13. MATERIAL RELATED PARTY TRANSACTIONS

Mr. Shen Weixing and Mr. Jiang Guitang, who are the beneficial owners of the Group acting in concert in the management of the Group, are regarded as the ultimate controlling parties of the Group during the reporting period.

The Group has entered into the following material related party transactions in the ordinary course of its business during the reporting period:

(a) Key management personnel remuneration

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

	2017	2016
	RMB'000	*RMB'000*
Short-term employee benefits	**2,208**	2,246
Post-employment benefits	**422**	219
Equity-settled share-based payments	**400**	333
	3,030	2,798

(b) Other related party balances and transactions

Saved as disclosed elsewhere in the consolidated financial statements, the Group has the following related party transactions:

(i) Balance with other related party

	2017	2016
	RMB'000	*RMB'000*
Amount due to a shareholder		
– Munsing Developments Limited *(Note)*	**–**	2,714

Note:

The amount due to Munsing Developments Limited, a controlling shareholder of the Company, was non-trade in nature, unsecured, interest-free and repayable on demand. The amount was fully repaid during the year ended 31 December 2017.

14. CAPITAL AND LEASE COMMITMENTS

As at 31 December 2017 and 2016, the Group had no material outstanding capital and lease commitments.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW AND PROSPECTS

The Group is an established and leading manufacturer in the People's Republic of China (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) United States Coast Guard ("USCG") approved phenolic grating products; (iii) FRP subway evacuation platform products; and (iv) epoxy wedge strip products. A new product line, FRP crosstie products for use in railways has been developed for commercial production commencing from August 2017.

The applications for FRP are quite wide including building and construction field, electrical and telecommunications engineering. As the product is characterised by its light weight, high strength, toughness, anti-slippery, anti-erosion, flame retardant, insulation and easy to colour and artistic properties as well as its good and comprehensive economic benefits, it is widely applied in industries including petrochemical, electrical, marine engineering, plating, vessel, metallurgy, steel, papermaking, brewing and municipal industry and mainly used in operating platform, equipment platform, stair treads, trench covers, filter plates, etc, which indicates that it is an ideal components for corrosive environment.

The outstanding quality and functionality of USCG approved phenolic grating products are the reasons for its wide recognition and acceptance by domestic end-users from different sectors. The Group is also one of the four manufacturers in China which hold the certificate for USCG approved phenolic grating products.

The Board believes that research and development capabilities are essential to the future growth of the Group. In the year ended 31 December 2017, the Group spent approximately RMB3.5 million (2016: approximately RMB2.5 million) in research and development expenditure for the development of new products and development of new technology solutions to improve the existing FRP products. A new product line for FRP crosstie products has been rolled for commercial production from August 2017. It is encouraging to see that a revenue of approximately RMB4.4 million in connection with the sales of FRP crosstie products was recorded in the year ended 31 December 2017. The Group's research and development is conducted in-house by the technical department, which is led by Mr. Jiang Guitang, an executive Director of the Company. Mr. Jiang has accumulated over 28 years of industrial experience in the composite material industry. Under the leadership of Mr. Jiang, the Group will further enhance the research and development capability by procuring new testing equipment and recruiting additional full-time technical personnel. In May 2017, there was one additional research and development staff hired. The group continues to seek for suitable specialists with appropriate calibre in 2018.

Leveraging on market trend information gathered by the sales and marketing team and participation in drafting the PRC industry standards, the Group constantly keeps track of developments and trends in the FRP industry worldwide. Over the past years, the Group closely followed up with the PRC government's macroeconomic stimulus when carrying out the research and development works. In respond to the latest "Belt and Road Initiatives" promulgated by Chinese government, the Group focused the research and development efforts on developing and improving products with potential to be used in the infrastructure projects. As a result, several new products such as the FRP subway evacuation platform products, epoxy wedge strip products were developed in recent years and in August 2017, FRP crosstie products were added in the new product lists.

It is generally believed that effective marketing is important in capturing the market share and attracting potential customers and as such, in the year ended 31 December 2017, the Group undertook the following marketing activities:

i. Participation in trade fairs and sales conventions including the JEC World 2017 held in France, JEC Asia 2017 held in South Korea, WEFTEC 2017 held in USA and China Composites Expo 2017 in China;

ii. Placing advertisements on the internet such as Made-in-China.com (www.made-in-china.com), an online trading platform, and entering into promotion agreements with online search engine service provider to attract new customers;

iii. Identification of suitable tender invitation mainly by online advertisements and industry periodicals; and

iv. Visiting existing customers regularly to enhance their knowledge on the Group's products and competitive advantages, to promote new products, to understand their specific needs, to obtain feedbacks on the products and to get a better understanding on the market trends.

With regard to the environmental aspect, the Group is committed to minimizing any negative impact on the environment which may be resulted from the production process. During the year ended 31 December 2017, the Group had no material non-compliance or violation on any relevant laws and regulations of the PRC on environmental protection.

The Group adopted an occupational health and safety system to comply with the relevant occupational health and safety laws and regulations imposed by the government authorities in the PRC. During the year ended 31 December 2017, there were no material work-related injuries or fatalities at the production facilities, and no prosecution has been made against the Group by the relevant government authorities in the PRC in respect of the breach of applicable health and safety laws and regulations.

Although it is expected that the FRP products market in general will grow at a moderate pace, with the extensive experience and market recognition of products which the Group has accumulated since more than a decade ago, as well as the expanding customer base, the Board is of the view that it is more well-positioned than other domestic enterprises in the industry to further develop and expand its markets and products.

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB68.2 million for the year ended 31 December 2017, representing an increase of approximately RMB4.9 million or 7.8% as compared to the corresponding year of 2016. The increase in revenue was primarily driven by the strong increase in sales revenue generated from sales of FRP subway evacuation platform products, epoxy wedge strip products and FRP crosstie products, a new product line launched in August 2017, which was partially offset by a decrease in sales of FRP grating and USCG approved phenolic grating products.

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

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	Sales revenue	**Gross profit margin**	Sales revenue	Gross profit margin
	RMB'000	***%***	*RMB'000*	*%*
FRP grating products	**42,043**	**36.4**	48,126	36.9
USCG approved phenolic grating products	**8,112**	**41.9**	9,677	43.2
FRP subway evacuation platform products	**4,067**	**29.0**	67	22.4
epoxy wedge strip products	**9,596**	**39.4**	5,408	47.5
FRP crosstie products	**4,370**	**31.2**	–	–
	68,188	**36.1**	63,278	38.5

In the year ended 31 December 2017, sales of FRP grating products remained the largest contributor to the Group's revenue and it accounted for approximately 61.7% 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 decreased by 12.6% from approximately RMB48.1 million in the year ended 31 December 2016 to approximately RMB42.0 million in the year ended 31 December 2017. This is mainly attributable to the reduction in sales to the major customers in the PRC, U.S. and U.K. There is no notable fluctuation in the gross profit margin on comparison between the two years.

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 decreased by 16.2% from approximately RMB9.7 million in the year ended 31 December 2016 to approximately RMB8.1 million in the year ended 31 December 2017. Due to the reduction in number of ships manufactured by one of the shipbuilders in the PRC, orders for the USCG approved phenolic grating products were consequently cut down by this customer. The gross profit margin decreased slightly by 1.3% from 43.2% for the year ended 31 December 2016 to 41.9% for the year ended 31 December 2017. This is primarily due to the decrease in average selling price because of normal price fluctuations and the variations in the raw material composition of such products.

FRP subway evacuation platform products were sold to main contractors who principally engaged in railway construction works in the PRC. Revenue derived from sales of FRP subway evacuation platform products increased drastically by nearly 60 times from approximately RMB67,000 for the year ended 31 December 2016 to approximately RMB4.1 million for the year ended 31 December 2017. The extremely low level of sales in the year ended 31 December 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 year ended 31 December 2017 accounted for the substantial increase in sales of this product category. The gross profit margin increased by 6.6% from 22.4% for the year ended 31 December 2016 to 29.0% for the year ended 31 December 2017. This is primarily due to the fact that the increase in sales and production volume has lowered the fixed costs of production per unit.

Epoxy wedge strip products were developed and launched in 2014 which targeted for manufacturers of wind turbine blades in the PRC. The revenue derived from sales of epoxy wedge strip products increased substantially by approximately RMB4.2 million or 77.4% from approximately RMB5.4 million for the year ended 31 December 2016 to approximately RMB9.6 million for the year ended 31 December 2017. This significant increase is 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 year ended 31 December 2016 was very low compared to that of the year ended 31 December 2017. Moreover, the increase in sales is also attributable to the reduction of selling price during the year ended 31 December 2017 so as to capture a larger market share and therefore, there was a reduction in the gross profit margin by 8.1% from 47.5% for the year ended 31 December 2017 to 39.4% for the year ended 31 December 2017 resulting from the reduction in the average selling price.

FRP crosstie products were developed in line with the PRC's policies in promoting "Belt and Road Initiatives". It is intended to apply as the replacement of wooden crossties for the railway sector. The target customers of such products are (i) PRC railway corporations; and (ii) corporations which participate in the construction of national railway bridges. The FRP crosstie products have been rolled for commercial production in August 2017. Sales revenue of approximately RMB4.4 million for the FRP crosstie products was recorded in the year ended 31 December 2017, which has contributed approximately 6.4% of sales revenue to the total sales and fetched a gross profit margin of 31.2% for the year ended 31 December 2017.

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

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	Average selling price per unit ***RMB***	**Volume**	Average selling price per unit *RMB*	Volume
FRP grating products (m^2)	**265.7**	**158,199**	285.2	168,773
USCG approved phenolic grating products (m^2)	**590.6**	**13,733**	564.3	17,148
FRP subway evacuation platform products (m^2)	**349.6**	**11,636**	854.7	78
epoxy wedge strip products (m)	**49.2**	**195,061**	29.2	185,356
FRP crosstie products (m^3)	**17,045.2**	**256**	–	–

The average selling price of the FRP grating products per m^2 decreased by 6.8% from RMB285.2 per m^2 for the year ended 31 December 2016 to RMB265.7 per m^2 for the year ended 31 December 2017, with a reduction in sales volume of approximately 6.3% on comparison between the two years. The decrease in average selling price was mainly due to normal fluctuation in prices of different FRP grating products and the variations in the composition of lower priced FRP grading products sold. In addition, the adverse impact of the exchange rate between RMB against USD and EUR during the year ended 31 December 2017 also accounted for the reduction in the average selling price as a significant portion of sales of the FRP grading products was denominated in USD and EUR.

The average selling price of the USCG approved phenolic grating products per m^2 increased by approximately 4.7% from RMB564.3 per m^2 for the year ended 31 December 2016 to RMB590.6 per m^2 for the year ended 31 December 2017, with a reduction in sales volume of approximately 19.9% on comparison between the two years. The increase in average selling price was mainly due to the increased level of complexity in the cutting technique which allowed an increase in the average selling price of this product category.

The average selling price of the FRP subway evacuation platform products per m^2 reduced by approximately 59.1% from RMB854.7 per m^2 for the year ended 31 December 2016 to RMB349.6 per m^2 for the year ended 31 December 2017, with a substantial increase in sales volume of approximately 149 times on comparison between the two years. The reduction in average selling price was mainly due to the difference in specifications for the same product type and also for the purpose of capturing a larger market share. Moreover, during the year ended 31 December 2016, the Group received a small amount of purchase orders from an existing customer for replenishment on an ad hoc basis, which allowed the Group to charge a higher average selling price for those particular orders.

The average selling price of the epoxy wedge strip products per metre increased substantially by over 68.5% from RMB29.2 per metre for the year ended 31 December 2016 to RMB49.2 per metre for the year ended 31 December 2017, with an increase in sales volume of approximately 5.2% on comparison between the two years. This significant increase in average selling price was mainly due to the substantial increase in sale of product items with different shapes, weight and dimensions which procured higher average selling price.

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

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
PRC	**40,036**	38,058
U.S.	**13,349**	13,549
U.K.	**8,715**	9,422
Others	**6,088**	2,249
Total	**68,188**	63,278

Sales in the PRC market increased by approximately 5.2% from approximately RMB38.1 million for the year ended 31 December 2016 to approximately RMB40.0 million for the year ended 31 December 2017, which is mainly attributable to the increase in sales of FRP subway evacuation platform products, epoxy wedge strip products and FRP crosstie products to the PRC customers during the year ended 31 December 2017.

Sales to the U.S. market decreased by approximately 1.5% from approximately RMB13.5 million for the year ended 31 December 2016 to approximately RMB13.3 million for the year ended 31 December 2017, mainly because of the decrease in sales to one of the major customers in the U.S.

Sales to the U.K. market reduced by approximately 7.5% from approximately RMB9.4 million for the year ended 31 December 2016 to approximately RMB8.7 million for the year ended 31 December 2017, mainly because of the decrease in sales to one of the major customers in the U.K.

Sales to the other locations increased substantially by approximately 170.7% from approximately RMB2.2 million for the year ended 31 December 2016 to approximately RMB6.1 million for the year ended 31 December 2017, mainly because of new customers acquired in Kazakhstan, Lithuania and Australia.

OPERATING COSTS AND EXPENSES

Distribution costs increased by approximately RMB994,000 or 17.5% to approximately RMB6.7 million in the year ended 31 December 2017 from approximately RMB5.7 million in the year ended 31 December 2016. The increase is mainly attributable to the increase in: (i) wages and salaries; and (ii) exhibition expenses.

Administrative expenses increased substantially by approximately RMB4.3 million, a 52.8% increase to approximately RMB12.4 million in the year ended 31 December 2017 from approximately RMB8.1 million in the year ended 31 December 2016. The increase is mainly attributable to the increase in: (i) wages and salaries;(ii) research and development expenses; and (iii) legal and professional expenses.

OPERATING RESULTS

There was a swing from a loss of approximately RMB3.8 million before taxation for the year ended 31 December 2016 to a profit of approximately RMB3.9 million before taxation for the year ended 31 December 2017. This is primarily due to the substantial reduction in the listing expenses in the year ended 31 December 2017 as majority of the listing expenses was incurred in the year ended 31 December 2016.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group held total assets of approximately RMB90.6 million (2016: approximately RMB70.0 million), including cash and cash equivalents of approximately RMB11.3 million (2016: approximately RMB3.9 million).

As at 31 December 2017, the Group had total liabilities of approximately RMB43.2 million (2016: RMB48.2 million) which mainly comprise of bank borrowings amounting to RMB20 million (2016: RMB20 million).

As at 31 December 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 15.5% compared to 42.5% as at 31 December 2016. This significant reduction was mainly due to the proceeds received from placing of 100,000,000 new shares of the Company (the "Placing"), which increased the Group's cash and cash equivalents and the total equity attributable to owners of the Company.

CONTINGENT LIABILITIES

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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 so 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 the 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.

CHARGES ON GROUP ASSETS

As at 31 December 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 RMB1,474,000 as at 31 December 2017 (2016: RMB1,512,000) and the buildings with a carrying value of RMB8,700,000 as at 31 December 2017 (2016: RMB9,335,000) were pledged for a bank borrowing of RMB20,000,000;

(ii) an aggregate amount of RMB1,059,000 (31 December 2016: RMB513,000) was placed in bank accounts and pledged in favour of banks for bill issuance and customers in relation to sales transactions.

(iii) bills receivable of RMB3,400,000 (2016: Nil) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

CAPITAL STRUCTURE

As at 31 December 2017, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (2016: RMB6) and RMB47,397,000 (2016: RMB21,814,000) respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had 135 employees (2016: 124). The total staff costs, including Directors' remuneration, for the year were approximately RMB11.9 million (2016: approximately RMB10.3 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 the 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.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

There were no significant investments held, acquisitions or disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2017.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries and affiliated companies as at 31 December 2017.

CASH FLOWS

The Group reported net cash flows of approximately RMB16.5 million (2016: RMB2.0 million) used in operating activities for the financial year ended 31 December 2017. The increase in net cash used is primarily due to the increase in the amount of payments to settle the trade, bills and other payables.

Net cash used in investing activities was approximately RMB1.7 million (2016: RMB465,000) for the financial year ended 31 December 2017. This substantial increase is mainly attributable to increase in the payments for the acquisition of property, plant and equipment.

Due to the Placing taken place in January 2017, net cash flows amounting to RMB25.6 million was generated from financing activities during the year ended 31 December 2017 comparing to net cash flows amounting to RMB8.4 million used in financing activities during the year ended 31 December 2016.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLAN

As the Shares were listed on 13 January 2017, the Group was at its first year of implementing its business objectives and strategies during the year ended 31 December 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 year ended 31 December 2017 is as follows:

Business objectives	**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	850	850
– Purchase hydraulic presses to produce the parts for the FRP subway evacuation platform products	2,915	– *(Note 1)*
– Automation of the cutting process of the pultrusion production process to improve the cutting precision level and reduce labour costs	730	730
– Purchase of automated FRP moulding production facilities to further enhance the product quality and lower the labour costs	3,400	500 *(Note 2)*

Business objectives	**Planned use of proceeds** *(HK$'000)*	**Actual use of proceeds** *(HK$'000)*
2. 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	1,100	1,100
– Development of the relevant quality control and testing equipment of the new FRP crosstie products	*245*	245
– Development and purchase of new production equipment for the new FRP crosstie products once the products are recognized by, and mass production orders are expected from potential customers	4,520	300 *(Note 3)*
– Procurement of testing equipment for continuous research and development in order to further optimize the production process of the new FRP crosstie products	735	735
3. Enhancement of the research and development capabilities by		
– procurement of testing equipment and raw materials for the existing product portfolio	350	350
– recruitment of additional research and development staff	350	60 *(Note 4)*

Business objectives	**Planned use of proceeds** *(HK$'000)*	**Actual use of proceeds** *(HK$'000)*
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	1,400	1,400
	16,595	6,270

Note:

1. Due to the change of the market demand for the cable scaffold of the FRP subway evacuation platform products, acquisition of hydraulic presses has not been materialized. The management would take appropriate action for the acquisition of hydraulic presses when the market demand resumes.

2. Purchase of automated FRP moulding production facilities would depend on the progress in the research and development of new products with better quality and lower labour costs, the schedule and timing of which cannot be estimated precisely. However, it is expected that there will be further spending on the automation of the production facilities in the first six months of 2018.

3. As the design and development of the new production lines for the FRP crosstie products have been revised and modified in order to fulfil different specifications of products developed, it is expected that there will be further use of proceeds until such modifications complete.

4. During the year ended 31 December 2017, there was only one additional research and development staff hired in May 2017. It is expected that another suitable candidate with appropriate calibre would be hired in the first half year of 2018.

CORPORATE GOVERNANCE PRACTICES

Throughout the financial year ended 31 December 2017, the Company has complied with the provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 15 to the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

There are no material events affecting the Group after the end of the reporting period.

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 for dealing in securities of the Company by the Directors. All Directors confirmed that they complied with the required standards as set out in the Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2017.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 16 December 2016 in accordance with the requirements of the GEM Listing Rules. The Audit Committee currently comprises of all three independent non-executive Directors, Mr. Ng Sai Leung, as the chairman, Mr. Tam Tak Kei Raymond and Mr. Huang Xin as the members.

The Audit Committee examined the accounting principles and practices adopted by the Group and discussed with the management its internal controls. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017.

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

Hong Kong, 23 March 2018

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 www.nantongrate.com