MEIGU

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 2018

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 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	5	**74,584**	68,188
Cost of sales		**(50,923)**	(43,594)
Gross profit		**23,661**	24,594
Other revenue	6	**496**	1,918
Other net gain/(loss)	6	**25**	(1,034)
Distribution costs		**(5,614)**	(6,661)
Listing expenses	8(c)	**–**	(1,343)
Administrative expenses		**(13,497)**	(12,409)
Profit from operations		**5,071**	5,065
Finance costs	8(a)	**(1,073)**	(1,122)
Profit before taxation	8	**3,998**	3,943
Income tax	9(a)	**(2,528)**	(3,260)
Profit for the year		**1,470**	683
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**1,470**	683
		RMB cents	*RMB cents*
Earnings per share			
Basic and diluted	10	**0.37**	0.17

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		**17,093**	14,549
Leasehold land held for own use under operating lease		**1,398**	1,436
Deferred tax assets		**350**	390
		18,841	16,375
Current assets			
Inventories		**6,863**	8,337
Property held for sale		**1,468**	1,468
Contract assets	*11(a)*	**4,444**	–
Trade and other receivables	*12*	**49,444**	52,040
Financial assets at fair value through other comprehensive income		**5,000**	–
Pledged bank deposits		**50**	1,059
Cash and cash equivalents		**6,170**	11,324
		73,439	74,228
Current liabilities			
Trade and other payables	*13*	**21,773**	18,280
Contract liabilities	*11(b)*	**93**	–
Bank borrowings	*14*	**15,000**	20,000
Income tax payable		**2,980**	2,397
		39,846	40,677
Net current assets		**33,593**	33,551
Total assets less current liabilities		**52,434**	49,926
Non-current liabilities			
Deferred tax liabilities		**3,167**	2,529
NET ASSETS		**49,267**	47,397
CAPITAL AND RESERVES			
Share capital		**3,600**	3,600
Reserves		**45,667**	43,797
TOTAL EQUITY		**49,267**	47,397

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company							
		Reserves						
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Share-based payment services *RMB'000*	Statutory reserve *RMB'000*	Retained profits *RMB'000*	Sub-total *RMB'000*	Total equity *RMB'000*
At 1 January 2017	–	–	9,557	333	3,258	8,666	21,814	21,814
Profit and total comprehensive income for the year	–	–	–	–	–	683	683	683
Issuance of shares upon listing	886	30,136	–	–	–	–	30,136	31,022
Issuance cost	–	(6,522)	–	–	–	–	(6,522)	(6,522)
Capitalisation issue	2,714	(2,714)	–	–	–	–	(2,714)	–
Equity-settled share-based payments	–	–	–	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
At 1 January 2018	**3,600**	**20,900**	**9,557**	**733**	**3,907**	**8,700**	**43,797**	**47,397**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**1,470**	**1,470**	**1,470**
Equity-settled share-based payments	**–**	**–**	**–**	**400**	**–**	**–**	**400**	**400**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**586**	**(586)**	**–**	**–**
At 31 December 2018	**3,600**	**20,900**	**9,557**	**1,133**	**4,493**	**9,584**	**45,667**	**49,267**

Notes:

1. GENERAL INFORMATION

MEIGU Technology Holding Group Limited 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 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, 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 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 2018 are extracted from the Group's audited consolidated financial statements for the year ended 31 December 2018 (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. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

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.

Non-current assets are started at the lower of carrying amount and fair value less costs to sell.

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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued the following new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Except for the application of HKFRS 9 and HKFRS15, the application of the new and amendments to HKFRSs in the current year are not expected to have material impact on the Group's financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group assessed that the cumulative effect of initial application was not material. Therefore no adjustment to the opening equity at 1 January 2018 was made. Comparative information continues to be reported under HKAS 39.

Details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These superseded HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts, if any. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate any financial asset or financial liability at FVPL at 1 January 2018.

b. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables); contract assets as defined in HKFRS 15, when the receivables are not unconditional (e.g. retention money withheld by customers who will settle with the Group upon the customers' satisfaction of the final check and inspection of the transferred goods at the end of the assurance-type warranty periods).

c. *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has assessed that the cumulative effect of initial application was immaterial, and accordingly, no adjustment is made to the opening balance of equity at 1 January 2018. Comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Details of the nature and effect of the changes on previous accounting policies are set out below:

a. *Timing of revenue recognition*

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good in the contract, which is taken as single point in time and the customers have taken acceptance of the goods transferred by the Group.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises its revenue.

b. *Significant financing component*

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers. Accordingly, this change in policy does not have a significant impact on the financial assets and liabilities as at 1 January 2018.

c. *Presentation of contract assets and liabilities*

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract assets were presented in the statement of financial position under "trade and other receivables" and contract liabilities were presented under "trade and other payables".

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

(i) Retention monies amounting to RMB11,186,000, which were previously included in trade and other receivables (note 12) are now included under contract assets (note 11(a)); and

(ii) Advances received amounting to RMB457,000, which were previously included in trade and other payables (note 13) are now included under contract liabilities (note 11(b)).

d. *Transportation costs*

Before the adoption of HKFRS 15, transportation costs were treated as distribution costs. Under HKFRS 15, the amount is classified to cost of sales as it constitutes contract cost to fulfill the performance obligation of sales of products to customers.

e. *Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018*

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A)	**Hypothetical amounts under HKASs 18 and 11 (B)**	**Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B)**
	RMB'000	RMB'000	RMB'000
Line items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Cost of sales	**(50,923)**	**(49,398)**	**1,525**
Gross profit	**23,661**	**25,186**	**(1,525)**
Distribution costs	**(5,614)**	**(7,139)**	**(1,525)**
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Contract assets	4,444	–	4,444
Trade and other receivables	49,444	53,888	(4,444)
Trade and other payables	(21,773)	(21,866)	93
Contract liabilities	(93)	–	(93)
Line items in the consolidated statement of cash flow for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Increase in trade, bills and other receivables	(9,145)	(2,403)	(6,742)
Decrease in contract assets	6,742	–	6,742
Increase in trade, bills and other payables	3,950	3,586	364
Decrease in contract liabilities	(364)	–	(364)

The significant differences arise as a result of the changes in accounting policies described above.

4. 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 2018 and which have not been adopted in these financial statements.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendment to HKAS 19	Plan Amendments, Curtailment or Settlement[1]
Annual Improvements to HKFRSs 2015-2017	Cycle Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after 1 January 2020
[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 16, Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. As the Group does not have material leases which are currently classified as operating leases, it is anticipated that HKFRS 16 will not have material impact to the recognition of leases of the Group.

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.

Amendments to HKAS 1 and HKAS 8 Definition of a Business

HKAS 1 was amended in 2015 to clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contains a list of specific requirements or describes them as minimum requirements. On the other hand, an entity should consider whether it is necessary to provide disclosures in addition to those specifically required by an HKFRS in order to help users understand the impact of a particular transaction or event on the entity's financial position and financial performance.

The amendments also highlight that when an entity decides how it aggregates information in the financial statements, it should take into consideration all relevant facts and circumstances. In particular, an entity should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions. Obscuring material information with immaterial information in financial statements will make the material information less visible and will therefore make the financial statements less understandable.

Amendments to HKFRS 9 Prepayment features with negative compensation

The amendments to HKFRS 9, Prepayment features with negative compensation, are a direct consequence of the identical amendments made to IFRS 9 by the IASB. Negative compensation arises when the party effecting the prepayment in effect receives a benefit from the other party (e.g. when the prepayment amount is based on the fair value of the loan at the date of prepayment which may be less than the amount that would have been repaid at maturity). The amendments require entities to measure financial assets with such a prepayment feature at amortised cost or at fair value through other comprehensive income (depending on the business model under which the financial assets are managed), if certain criteria are met. Under the current HKFRS 9 requirements, prepayment features with negative compensation would result in a financial asset being classified as at fair value through profit or loss.

The directors of the Company do not anticipate that the application of the interpretation and the amendments will have a material impact on the Group's consolidated financial statements.

5. 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.

	2018	2017
		(note)
	RMB'000	*RMB'000*
Revenue from contract with customers within the scope of HKFRS 15		
Sales of fiberglass reinforced plastic products		
– fiberglass reinforced plastic grating	**55,541**	42,043
– phenolic grating	**2,919**	8,112
– composite subway evacuation platform	**1,912**	4,067
– epoxy wedge strip	**12,749**	9,596
– fiberglass reinforced plastic crossties	**1,463**	4,370
	74,584	68,188
Timing of revenue recognition		
A point in time	**74,584**	68,188

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 7(a).

6. OTHER REVENUE AND OTHER NET INCOME

	2018	2017
	RMB'000	*RMB'000*
Other revenue		
Interest income on bank deposits	**21**	22
Total interest income on financial assets at fair value through other comprehensive income	**28**	–
Total interest income on financial assets not at fair value through profit or loss	**49**	22
Government grants and other subsidies *(note below)*	**447**	1,896
	496	1,918
Other net gain/(loss)		
Net foreign exchange gain/(loss)	**580**	(916)
Impairment loss on trade and bills receivables	**(555)**	(118)
	25	(1,034)

Note:

Included in government grants and other subsidies was RMB200,000 (2017: RMB1,700,000) 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.

7. 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.

	2018	2017
	RMB'000	*RMB'000*
Local customers		
The PRC (excluding Hong Kong) (place of domicile)	**33,256**	40,036
Foreign customers		
United States of America	**22,066**	13,349
United Kingdom	**12,782**	8,715
Belgium	**2,301**	–
France	**697**	347
Lithuania	**569**	701
South Korea	**481**	982
Uruguay	**347**	357
Canada	**329**	1,218
Kazakhstan	**320**	826
Australia	**224**	666
Others	**1,212**	991
	41,328	28,152
	74,584	68,188

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

Revenue from external customers contributing 10% or more of the total revenue from the Group is as follows:

	2018	2017
	RMB'000	*RMB'000*
Customer A *(note)*	**8,303**	–

Note: Revenue from customer A did not contribute 10% or more of the total revenue from the Group during the year ended 31 December 2017.

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following:

	2018 *RMB'000*	2017 *RMB'000*
(a) Finance costs		
Interest on bank borrowings	**1,073**	1,122
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**11,603**	10,443
Contributions to defined contribution retirement plans	**1,160**	1,061
Equity-settled share-based payments	**400**	400
	13,163	11,904
(c) Other items		
Amortisation for leasehold land	**38**	38
Impairment loss on trade and bills receivables *(Note 12(b))*	**555**	118
Depreciation of property, plant and equipment	**1,918**	1,717
Cost of inventories recognised as expense *(Note (i))*	**49,398**	43,594
Auditor's remuneration		
– auditor of the Company	**755**	701
– other auditors *(Note (ii))*	**28**	55
Listing expenses		
– other professional parties	**–**	1,343
Research and development costs *(Note (iii))*	**3,418**	3,541

Notes:

(i) Cost of inventories recognised as expenses include RMB5,899,000 (2017: RMB5,889,000) relating to staff costs, and RMB1,204,000 (2017: RMB1,034,000) relating to depreciation of property, plant and equipment, for the year ended 31 December 2018, 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 RMB1,040,000 (2017: RMB833,000) and costs of materials consumed of RMB1,632,000 (2017: RMB2,114,000), the amounts of which are also included in the total amount separately disclosed for each of these types of expenses.

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

(a) Income tax recognised in profit or loss:

	2018	2017
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary		
– current year	**1,877**	2,601
– over-provision in prior years	**(27)**	(29)
	1,850	2,572
Deferred tax		
Origination and reversal of temporary differences in respect of		
– reversal of impairment loss/(impairment loss) on trade and bills receivables	**40**	(29)
– withholding tax on distributable profits of a PRC subsidiary of the Group	**638**	717
	678	688
	2,528	3,260

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 2018 and 2017, 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% (2017: 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 at applicable tax rates:**

	2018	2017
	RMB'000	*RMB'000*
Profit before taxation	**3,998**	3,943
Notional tax on profit attributable to the subsidiaries under the tax jurisdiction of the PRC, calculated at 25%	**1,850**	2,505
Notional tax on loss attributable to non-PRC entities of the Group under tax jurisdiction of Hong Kong, calculated at 16.5%	**(296)**	(990)
Over-provision in prior years	**(27)**	(29)
Tax effect of non-deductible expenses	**363**	1,057
Deferred tax provided for withholding tax on distributable profits of a PRC subsidiary of the Group	**638**	717
Actual tax expense	**2,528**	3,260

10. EARNINGS PER SHARE

As of 1 January 2017, the Company had 750 ordinary shares in issue. On 13 January 2017, the Company was listed on GEM 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 per share for each of the years ended 31 December 2018 and 2017 is based on the following data:

	2018	2017
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share		
Profit for the year attributable to the owners of the Company	**1,470**	683
	'000	*'000*
Number of shares		
Number of shares for the purpose of basic earnings per share at the beginning of the reporting period	**400,000**	300,000
Effect of shares issued under initial public offering	**–**	96,712
Number of shares for the purpose of basic earnings per share	**400,000**	396,712

Basic earnings per share for the year ended 31 December 2018 amounted to 0.37 RMB cent (2017: 0.17 RMB cent) per share. The number of ordinary shares for the purpose of calculating basic earnings per share has been retrospectively adjusted for the capitalisation issue of the shares of the Company completed on 12 January 2017.

No diluted earnings per share was presented as there was no potential ordinary shares outstanding during the years ended 31 December 2018 and 2017.

11 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Contract assets			
Retention monies receivables	**4,444**	11,186	–
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" *(Note 12)*	**36,594**	35,472	

Note:

(i) The contract assets primarily relate to the Group's rights to consideration for goods transferred by the Group to the customers for which the rights to consideration are still conditional upon the customers' satisfaction on the quality of the goods sold which is typically at the expiry date of the assurance-type warranty period, as stipulated in the contracts.

The contract assets are transferred to trade receivables when the rights to consideration become unconditional.

At 31 December 2018 and 1 January 2018, included in contract assets were retention monies receivable from the contract customers amounting to RMB4,444,000 and RMB11,186,000 respectively. The terms and conditions for the release of retention monies by the contract customers vary from contract to contract, which are subject to the customers' satisfaction of quality upon the expiry of the assurance – type warranty period. The retention monies receivable from the contract customers generally represent 5% to 10% of consideration of the contracts, that are retained by the contract customers as security for non-performance protection and the Group's entitlement to payment of retention monies receivable are conditional upon the contract customers' physical inspection of the quality of the goods at the expiry of the assurance – type warranty period. In the opinion of the directors of the Company, the retention monies retained by the contract customers under the contracts are not intended as a financing arrangement by the Group to the contract customers.

(ii) Impairment assessment of the contract assets

Contract assets are related to the retention monies receivables, which have substantially the same characteristics as the trade receivables for the same types of the contract. The Group's contract customers are mainly with high credit rating and their payment history with the Group are considered to be good. There are no material disputes or claims received from the contract customers of the relevant contracts and the Group considered that there has not been a significant change in credit quality of the contract customers. The Group concluded that the expected loss rates for trade receivables are a reasonable approximation of the rates for contract assets. Since the payment is not due, the expected loss rate of contract assets is assessed to be minimal and accordingly, the net carrying amount of contract assets is still considered fully recoverable at the each reporting period end. The Group does not hold any collateral as security for the contract assets at each reporting period end.

At 31 December 2018 and 1 January 2018, no allowance for impairment loss on contract assets was made.

(b) Contract liabilities

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities			
Sales deposits received	**93**	457	–

Contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration or is contractually required to pay non-refundable consideration and the amount is already due before the Group recognises the related revenue. Sales deposits received previously included as receipt in advance under "Trade and other payables" (Note 13) were reclassified to contract liabilities since 1 January 2018.

12. TRADE AND OTHER RECEIVABLES

	31 December 2018 *RMB'000*	1 January 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade receivables *(note (i))*	**36,594**	35,472	46,658
Less: allowance for doubtful debts *(note (i) and (ii))*	**(1,396)**	(1,563)	(1,563)
	35,198	33,909	45,095
Bills receivables *(note (d))*	**11,163**	4,214	4,214
Trade and bills receivables, net *(note (a), (b) and (c))*	**46,361**	38,123	49,309
Other receivables	**968**	849	849
Prepayments and deposits	**2,077**	1,844	1,844
Current portion of leasehold land held for own use under an operating lease	**38**	38	38
	49,444	40,854	52,040

The Group has an unconditional right to all of the trade and other receivables which are expected to be recovered and or recognised as expenses within one year or repayment on demand.

Notes:

(i) Upon the adoption of HKFRS 15 since 1 January 2018, some of the trade receivables, for which the Group's entitlement to the consideration, which was conditional on achieving certain milestones, were reclassified to "contract assets" (Note 11(a)).

(ii) The Group determines the provision for impairment of trade and other receivables on a forward looking basis and expected lifetime losses are recognised from initial recognition of the assets.

The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward looking estimates.

Other receivables are considered for 12-month expected credit losses.

In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in operating results and financial positions of the customers, past payment history of the customers, and actual or adverse changes in business, financial or economic conditions that are expected to cause a significant change in the customers' ability to meet their obligations.

At the end of reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

(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:

	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**11,568**	12,171
31 – 90 days	**13,392**	13,301
91 – 180 days	**14,656**	10,212
181 – 365 days	**3,978**	4,230
Over 365 days	**2,767**	9,395
	46,361	49,309

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 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. Since 1 January 2018, retention monies were reclassified to contract assets (see Note 11(a)).

(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

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**1,563**	1,445
Impairment loss recognised	**555**	118
Bad debt written off	**(722)**	–
At 31 December	**1,396**	1,563

As at 31 December 2018, trade receivables of the Group amounting to RMB1,396,000 (2017: RMB1,563,000) was determined to be impaired according to the expected credit loss rates (2017: being outstanding for over 180 days at the end of the reporting period or due from customers with financial difficulties). Accordingly, allowance of doubtful debts of RMB555,000 (2017: RMB118,000) was recognised for the year ended 31 December 2018.

(c) Contract assets and trade and bills receivables that are not impaired

In order to determine the expected credit losses for the portfolio of contract assets and trade and bills receivables at each reporting period end, the Group uses a provision matrix. The provision matrix is based on its historical observed default rates, adjusted for forward looking estimates and market conditions. At each reporting period end, the historical observed default rates and the forward looking estimates are updated.

The following table provides information about the Group's exposures to credit risk and ECLs for contract assets and trade receivables and bills receivables as at 31 December 2018.

	As at 31 December 2018				
	Lifetime ECL	**Gross carrying amount**	**Lifetime ECL**	**Net carrying amount**	**Credit impaired**
	%	*RMB'000*	*RMB'000*	*RMB'000*	*Yes/No*
Not past due	–	46,076	–	46,076	No
Past due					
Within 1 month	–	251	–	251	No
1 to 3 months	10.7%	943	(100)	843	No
3 months to 1 year	12.5%	3,824	(478)	3,346	No
1 to 2 years	46.5%	540	(251)	289	No
Credit impaired	100.0%	567	(567)	–	Yes
		52,201	(1,396)	50,805	
Represented by:					
Contract assets *(Note 11(a))*		4,444	–	4,444	
Trade receivables *(Note 12)*		36,594	(1,396)	35,198	
Bills receivables *(Note 12)*		11,163	–	11,163	
		52,201	(1,396)	50,805	

Expected loss rates are based on actual loss experience over the past 4 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, trade receivables of RMB1,563,000 were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017
	RMB'000
Neither past due nor impaired	36,372
Past due but not impaired	
Less than 1 month past due	1,132
1 to 3 months past due	1,941
Over 3 months and less than 1 year past due	7,784
More than 1 year past due	2,080
	12,937
	49,309

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.

(d) As at 31 December 2018, bills receivables of RMB6,800,000 (2017: RMB3,400,000) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

13. TRADE AND OTHER PAYABLES

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables	**15,546**	13,381	13,381
Other payables	**6,227**	4,442	4,899
	21,773	17,823	18,280

Sales deposits received in advance previously included as receipt in advance under "other payables" was reclassified to contract liabilities (Note 11(b)) since 1 January 2018.

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

	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**4,265**	4,800
31 – 90 days	**3,826**	4,938
91 – 180 days	**3,848**	3,230
Over 180 days	**3,607**	413
	15,546	13,381

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

14. BANK BORROWINGS

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

	2018	2017
	RMB'000	*RMB'000*
Fixed rate term loans from banks due for repayment within 1 year or repayable on demand		
Secured bank borrowings *(note below)*	**15,000**	20,000

As at 31 December 2018 and 2017, the bank borrowings were secured by buildings and a leasehold land of the Group. It was further guaranteed by an independent third party guarantee company in the PRC.

15. MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

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

	2018	2017
	RMB'000	*RMB'000*
Short-term employee benefits	**2,596**	2,208
Post-employment benefits	**172**	422
Equity-settled share-based payments	**400**	400
	3,168	3,030

16. CAPITAL AND LEASE COMMITMENTS

As at 31 December 2018 and 2017, the Group had no material outstanding capital and lease commitments.

17 COMPARATIVE INFORMATION

Certain comparative information have been amended to conform with the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL OVERVIEW

The Group is an established and leading manufacturer in the PRC engaged in the research and development, production and sale of a variety of fibreglass reinforced plastic ("FRP") products. The Group's major products consist of: (i) FRP grating products; (ii) United States Coast Guard ("USCG") approved phenolic grating products; (iii) Composite subway evacuation platform; (iv) epoxy wedge strip products; and (v) FRP crosstie products.

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 component for corrosive environment.

Given that FRP delivers outstanding performance as a comparatively new type of materials and as a substitute of traditional materials such as wood, concrete and metal, and the potential application of products made of FRP composites in a wider range of fields such as aerospace, energy and transportation industries, the management expects that the overall FRP market in China will grow at a revised CAGR of 5.0% for the next two years in light of gradual maturity and better understanding of the FRP market in future.

The Board believes that research and development capabilities are essential to the future growth of the Group. In the year ended 31 December 2018, the Group spent approximately RMB3.4 million (2017: approximately RMB3.5 million) in research and development expenditure for the development of new products and development of new technology solutions to improve the existing FRP products. The Group's research and development is conducted by the in-house technical department, which is led by Mr. Jiang Guitang, an executive Director. Mr. Jiang has accumulated over 29 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. The Group continues to seek for suitable specialists with appropriate calibre in 2019.

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 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 under the category of Composite subway evacuation platform, epoxy wedge strip products and FRP crosstie products were developed, which contributed approximately 21.6% of the total sales in the financial year ended 31 December 2018.

It is generally believed that effective marketing is important in capturing the market share and attracting potential customers and as such, during the year ended 31 December 2018, the Group undertook the following marketing activities:

i. participation in trade fairs and sales conventions including the JEC World 2018 held in France, International Trade Fair for Transport Technology held in Germany, WEFTEC 2018 held in USA and China Composites Expo 2018 held in China;

ii. placing advertisements on the internet such as an online trading platform Made-in-China.com (www.made-in-china.com), 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 2018, 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 2018, there were no material work-related injuries or fatalities at the production facilities, and no prosecution had 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.

Details of the measure on minimizing any negative impact on the environment and occupational health and safety measures were set out in the environment, social and governance report on pages 36 to 44 of the 2018 annual report.

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 the Group is more well-positioned than other domestic enterprises in the industry to further develop and expand its markets and products so as to capture the moderate growth of the FRP grating products market going forward.

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB74.6 million for the year ended 31 December 2018, representing an increase of approximately RMB6.4 million or 9.4% as compared to the corresponding year in 2017. The increase in revenue was primarily driven by the strong increase in sales revenue generated from sales of FRP grating products and epoxy wedge strip products, which was offset by decrease of sales in USCG approved phenolic grating products, Composite subway evacuation platform and FRP crosstie products.

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

	For the year ended 31 December			
	2018		2017	
	Sales revenue	**Gross profit margin**	Sales revenue	Gross profit margin
	RMB'000	%	*RMB'000*	%
FRP grating products	**55,541**	**34.4**	42,043	36.4
USCG approved phenolic grating products	**2,919**	**44.2**	8,112	41.9
Composite subway evacuation platform	**1,912**	**15.4**	4,067	29.0
Epoxy wedge strip products	**12,749**	**29.9**	9,596	39.4
FRP crosstie products	**1,463**	**22.5**	4,370	31.2
	74,584	**31.7**	68,188	36.1

In the year ended 31 December 2018, sales of FRP grating products remained the largest contributor to the Group's revenue and it accounted for approximately 74.5% 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 Unite 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 increased by 32.1% from approximately RMB42.0 million in the year ended 31 December 2017 to approximately RMB55.5 million in the year ended 31 December 2018. This is mainly due to the increase in sales in the U.S. and U.K. markets. The gross profit margin decreased by approximately 2 percentage points from 36.4% to 34.4%, which was mainly due to the increase in costs of raw materials.

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 64.0% from approximately RMB8.1 million in the year ended 31 December 2017 to approximately RMB2.9 million in the year ended 31 December 2018. The sharp reduction was due to the downturn of the shipbuilding industry in China and nearby surrounding countries, which caused the customers become more conservative on placing new orders. The gross profit margin increased by 2.3 percentage points from 41.9% for the year ended 31 December 2017 to 44.2% for the year ended 31 December 2018. This 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 with no noticeable increase in cost of production.

Composite subway evacuation platform were sold to main contractors who principally engaged in railway construction works in the PRC. Revenue generated from sales of Composite subway evacuation platform decreased by approximately 53.0% from approximately RMB4.1 million for the year ended 31 December 2017 to approximately RMB1.9 million for the year ended 31 December 2018. The low level of sales in the year ended 31 December 2018 was mainly because of the temporary suspension in placing order from railway construction customers during the year ended 31 December 2018. The gross profit margin decreased sharply by 13.6 percentage points from 29.0% for the year ended 31 December 2017 to 15.4% for the year ended 31 December 2018. Due to the orders received to supplement the previous finished orders, the production line, which was temporarily halted, was not running efficiently on resumption of production. This caused a relatively lower gross profit margin in comparison with that achieved last year.

Epoxy wedge strip products were developed and targeted for manufacturers of wind turbine blades in the PRC. The revenue derived from sales of epoxy wedge strip products increased by approximately RMB3.2 million or 32.9% from approximately RMB9.6 million for the year ended 31 December 2017 to approximately RMB12.7 million for the year ended 31 December 2018. This was mainly due to the acquisition of a new customer and the resumption of confidence from the existing customers on the wind turbine manufacturing industry regardless of controlling measures imposed by the government. The gross profit margin reduced by 9.5 percentage points from 39.4% for the year ended 31 December 2017 to 29.9% for the year ended 31 December 2018. The reduction in gross profit margin can be explained by the differences in product specifications in relation to different shapes, weight and dimension for the products sold in the two years.

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 were rolled out for commercial production in August 2017. It generated approximately RMB1.5 million of revenue to the Group which accounted for approximately 2.0% of the Group's total sales for the year ended 31

December 2018. Unfortunately, revenue generated from the sales of FRP crossties products decreased by approximately RMB2.9 million or 66.5% from approximately RMB4.4 million for the year ended 31 December 2017 to approximately RMB1.5 million for the year ended 31 December 2018. The reduction was mainly attributable to the change of market demand resulting from the slowdown of the macro-economic conditions in the PRC. The gross profit margin reduced by 8.7 percentage points from 31.2% for the year ended 31 December 2017 to 22.5% for the year ended 31 December 2018. This was mainly due to the increase in costs of raw materials.

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

	For the year ended 31 December			
	2018		2017	
	Average selling price per unit *RMB*	**Volume**	Average selling price per unit *RMB*	Volume
FRP grating products	**281.1**	**197,606 m^2**	265.7	158,199 m^2
USCG approved phenolic grating products	**623.2**	**4,684 m^2**	590.6	13,733 m^2
Composite subway evacuation platform	**349.6**	**5,468 m^2**	349.6	11,636 m^2
Epoxy wedge strip products	**60.0**	**212,703 m**	49.2	195,061 m
FRP crosstie products	**17,931.0**	**81 m^3**	17,045.2	256 m^3

The average selling price of the FRP grating products per m^2 increased by approximately 5.8% from RMB265.7 per m^2 for the year ended 31 December 2017 to RMB281.1 per m^2 for the year ended 31 December 2018, with an increase in sales volume of approximately 25.0% in comparison between the two years. The increase in average selling price was largely due to the effect of depreciation of RMB against U.S. dollar throughout the year with an increase in sales to the U.S. market, which were invoiced in U.S. dollar.

The average selling price of the USCG approved phenolic grating products per m^2 increased by approximately 5.5% from RMB590.6 per m^2 for the year ended 31 December 2017 to RMB623.2 per m^2 for the year ended 31 December 2018, with a reduction in sales volume of approximately 65.9% in 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 allows an increase in the average selling price of this product category. The significant reduction in sales volume was principally due to the general downturn of the shipping industry in China and nearby surrounding countries.

The average selling price of the Composite subway evacuation platform per m^2 remained unchanged, with an decrease in sales volume of approximately 53.0% in comparison between the two years. It is because the sales order, which was received in the year ended 31 December 2017, was requested by the customer to postpone for completion. The order was then finally completed during the year ended 31 December 2018.

The average selling price of the epoxy wedge strip products per m increased by approximately 22.0% from RMB49.2 per m for the year ended 31 December 2017 to RMB60.0 per m for the year ended 31 December 2018, with an increase in sales volume of approximately 9.0% in comparison between the two years. The increase in average selling price was mainly due to the differences in product specifications in relation to different shapes, weight and dimension for the products sold in the two years.

The average selling price of the FRP crosstie products per m^3 increased by approximately 5.2% from RMB17,045.2 per m^3 for the year ended 31 December 2017 to RMB17,931.0 per m^3 for the year ended 31 December 2018, with a reduction in sales volume of approximately 68.4% in comparison between the two years. The increase in average selling price was largely attributable to the recovery of certain cost increments in raw materials from customers while the decrease in sales volume was mainly attributable to change in market demand.

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

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
PRC	**33,256**	40,036
U.S.	**22,066**	13,349
U.K.	**12,782**	8,715
Others	**6,480**	6,088
Total	**74,584**	68,188

Sales to the PRC market decreased by approximately 16.9% from approximately RMB40.0 million for the year ended 31 December 2017 to approximately RMB33.3 million for the year ended 31 December 2018. This is because of the allocation of production capacity to more urgent orders from overseas and the reduction in sales of the USCG approved phenolic grating products, Composite subway evacuation platform and FRP crosstie products during the year ended 31 December 2018.

Sales to the U.S. market increased by approximately 65.3% from approximately RMB13.3 million for the year ended 31 December 2017 to approximately RMB22.1 million for the year ended 31 December 2018, mainly because of the increase in sales orders from the major customers in the U.S. market.

Sales to the U.K. market increased by approximately 46.7% from approximately RMB8.7 million for the year ended 31 December 2017 to approximately RMB12.8 million for the year ended 31 December 2018, mainly because of the increase in sales orders from the major customers in the U.K. market.

Sales to the other locations increased by approximately 6.4% from approximately RMB6.1 million for the year ended 31 December 2017 to approximately RMB6.5 million for the year ended 31 December 2018, mainly because of the new customers acquired in Belgium during the year ended 31 December 2018.

OPERATING COSTS AND EXPENSES

Distribution costs decreased by approximately RMB1.0 million or 15.7% to approximately RMB5.6 million in the year ended 31 December 2018 from approximately RMB6.7 million in the year ended 31 December 2017. The decrease was mainly attributable to the reclassification of transportation costs to cost of sales on adoption of HKFRS 15.

Administrative expenses increased by approximately RMB1.1 million, a 8.8% increase to approximately RMB13.5 million in the year ended 31 December 2018 from approximately RMB12.4 million in the year ended 31 December 2017. The increase was mainly attributable to the increase in wages and salaries, and legal and professional fees.

Finance costs decreased by approximately RMB49,000 to approximately RMB1.07 million in the year ended 31 December 2018 from approximately RMB1.12 million in the year ended 31 December 2017. The decrease was mainly due to the partial repayment of bank loan during the year ended 31 December 2018.

OPERATING RESULTS

There was an increase of approximately 115.2% in profit for the year from approximately RMB683,000 for the year ended 31 December 2017 to that of approximately RMB1.5 million for the year ended 31 December 2018. This substantial uplift in profit was largely due to the listing expenses of approximately RMB1.3 million charged in the year ended 31 December 2017, which did not recur in the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group held total assets of approximately RMB92.3 million (2017: approximately RMB90.6 million), including cash and cash equivalents of approximately RMB6.2 million (2017: approximately RMB11.3 million).

As at 31 December 2018, the Group had total liabilities of approximately RMB43.0 million (2017: RMB43.2 million) which mainly comprise of bank borrowings amounting to RMB15 million (2017: RMB20 million).

As at 31 December 2018, 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 15.2% compared to that of 15.5% as at 31 December 2017. This slight reduction was mainly due to the reduction in bank borrowings by RMB5 million from RMB20 million as at 31 December 2017 to RMB15 million as at 31 December 2018.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no contingent liabilities (2017: 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 U.S. 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 the 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 the cost arising from the exchange rate fluctuations on 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'S ASSETS

As at 31 December 2018, 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 RMB1,436,000 as at 31 December 2018 (2017: RMB1,474,000) and the buildings with a carrying value of RMB9,417,000 as at 31 December 2018 (2017: RMB8,700,000) were pledged for bank borrowings of RMB15,000,000 (2017: RMB20,000,000);

(ii) an aggregate amount of RMB50,000 (31 December 2017: RMB1,059,000) was placed in a bank account and pledged in favour of banks for bill issuance and customers in relation to certain sales transactions; and

(iii) bills receivables of RMB6,800,000 (31 December 2017: RMB3,400,000) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

CAPITAL STRUCTURE

As at 31 December 2018, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (2017: RMB3,600,000) and RMB49,267,000 (2017: RMB47,397,000) respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 135 employees (2017: 135). The total staff costs (including Directors' remuneration) for the year were approximately RMB13.2 million (2017: approximately RMB11.9 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 2018 (2017: Nil).

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

There were no significant investments held, acquisitions or disposals of subsidiaries, associates and joint ventures by the Group during the year ended 31 December 2018.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associates and joint ventures as at 31 December 2018.

CASH FLOWS

The Group reported net cash flows of approximately RMB10.3 million generated from operating activities for the financial year ended 31 December 2018 compared to that of approximately RMB16.5 million used in operating activities for the year of 2017. The swing from cash outflows to cash inflows in respect of operating activities was largely due to the positive impact of the changes in working capital taken place in the year ended 31 December 2018.

Net cash used in investing activities was approximately RMB9.4 million (2017: RMB1.7 million) for the financial year ended 31 December 2018. This increase was mainly attributable to the net cash outflows in acquiring financial assets at fair value through other comprehensive income, which are bank wealth management products for short term investment purpose.

Due to the listing on the GEM of the Stock Exchange by way of placing new shares of the Company taken place in January 2017, net cash flows amounting to approximately RMB25.6 million was generated from financing activities during the year ended 31 December 2017 compared to net cash flows of approximately RMB6.1 million used in financing activities, mainly due to partial repayment of bank loans, during the year ended 31 December 2018.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLAN

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 up to 31 December 2018 is as follows:

Business objectives	**Planned use of proceeds** *(HK$'000)*	**Actual use of proceeds** *(HK$'000)*
1. Enhancement of the existing production processes, and acquisition of new production facilities:		
– Enhancement of the existing pultrusion equipment and associated resin basins and pre-form machine to improve product quality and optimize production costs	850	850
– Purchase hydraulic presses to produce the parts for the Composite subway evacuation platform	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

Business objectives	Planned use of proceeds *(HK$'000)*	Actual use of proceeds *(HK$'000)*
– Purchase of automated FRP moulding production facilities to further enhance the product quality and lower the labour costs	3,400	1,560 *(Note 2)*
2. Further development of the products according to the expected growth trend as a result of the PRC's macro-economic 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	417 *(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

Business objectives			Planned use of proceeds *(HK$'000)*	Actual use of proceeds *(HK$'000)*
3.	Enhancement of the research and development capabilities by the following ways			
	–	procurement of testing equipment and raw materials for the existing product portfolio	300	350
	–	recruitment of additional research and development staff	300	139 *(Note 4)*
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
			16,495	7,526

Note:

1. Acquisition of hydraulic presses will be materialized in the first half of 2019 as sales orders of the Composite subway evacuation platform are expected to be received in 2019.

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 2019.

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 specification of products developed, it is expected that there will be further use of proceeds until such modification complete.

4. During the year ended 31 December 2018, one additional research and development staff was hired. It is expected that another suitable candidate with appropriate calibre would be hired in 2019.

CORPORATE GOVERNANCE PRACTICES

Throughout the financial year ended 31 December 2018, 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 2018.

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 2018.

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 2018.

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

Hong Kong, 22 March 2019

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.