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MEIGU Technology Holding Group Limited

美固科技控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8349)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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

RESULTS

The Board is pleased to announce the unaudited results of the Company and its subsidiaries (the “**Group**”) for the three months and six months ended 30 June 2019, together with comparative figures for the same corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the three months ended 30 June		For the six months ended 30 June	
		2019	2018	2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	3	22,068	18,726	38,280	32,495
Cost of sales		(13,063)	(12,919)	(23,265)	(23,488)
Gross profit		9,005	5,807	15,015	9,007
Other revenue	4	76	9	113	291
Other net income	4	146	–	146	–
Selling and distribution costs		(1,320)	(1,579)	(2,419)	(3,040)
Administrative expenses		(4,390)	(2,850)	(8,271)	(5,987)
Profit from operations		3,517	1,387	4,584	271
Finance costs	5(a)	(225)	(305)	(448)	(607)
Profit/(Loss) before taxation	5	3,292	1,082	4,136	(336)
Income tax	6	(1,473)	(566)	(1,940)	(490)
Profit/(Loss) for the period attributable to owners of the Company		1,819	516	2,196	(826)
Other comprehensive income for the period		–	–	–	–
Total comprehensive income/ (loss) for the period attributable to owners of the Company		1,819	516	2,196	(826)
Earnings/(Loss) per share		RMB cent	RMB cent	RMB cent	RMB cent
Basic and diluted	8	0.45	0.13	0.55	(0.21)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		16,873	17,093
Leasehold land held for own use under an operating lease		1,379	1,398
Deferred tax assets		350	350
		<u>18,602</u>	<u>18,841</u>
Current assets			
Inventories		7,405	6,863
Property held for sale		1,468	1,468
Contract assets		1,831	4,444
Trade and other receivables	9	41,683	49,444
Financial assets at fair value through other comprehensive income		–	5,000
Pledged bank deposits		–	50
Cash and cash equivalents		15,417	6,170
		<u>67,804</u>	<u>73,439</u>
Current liabilities			
Trade and other payables	10	13,026	21,773
Contract liabilities		267	93
Bank borrowings		15,000	15,000
Income tax payable		2,856	2,980
		<u>31,149</u>	<u>39,846</u>
Net current assets		<u>36,655</u>	<u>33,593</u>
Total assets less current liabilities		<u>55,257</u>	<u>52,434</u>
Non-current liabilities			
Deferred tax liabilities		3,594	3,167
NET ASSETS		<u>51,663</u>	<u>49,267</u>
CAPITAL AND RESERVES			
Share capital	11	3,600	3,600
Reserves		48,063	45,667
TOTAL EQUITY		<u>51,663</u>	<u>49,267</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to owners of the Company

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital Reserve <i>RMB'000</i>	Share- based payment reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018 (Audited)	3,600	20,900	9,557	733	3,907	8,700	47,397
Loss and total comprehensive loss for the period	–	–	–	–	–	(826)	(826)
Equity-settled share-based payments	–	–	–	200	–	–	200
Transfer to statutory reserve	–	–	–	–	97	(97)	–
At 30 June 2018 (Unaudited)	<u>3,600</u>	<u>20,900</u>	<u>9,557</u>	<u>933</u>	<u>4,004</u>	<u>7,777</u>	<u>46,771</u>
At 1 January 2019 (Audited)	3,600	20,900	9,557	1,133	4,493	9,584	49,267
Profit and total comprehensive income for the period	–	–	–	–	–	2,196	2,196
Equity-settled share-based payments	–	–	–	200	–	–	200
Transfer to statutory reserve	–	–	–	–	405	(405)	–
At 30 June 2019 (Unaudited)	<u>3,600</u>	<u>20,900</u>	<u>9,557</u>	<u>1,333</u>	<u>4,898</u>	<u>11,375</u>	<u>51,663</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	5,605	1,488
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(953)	(2,127)
Proceeds from sales of financial assets at fair value through other comprehensive income	5,000	—
Interest received	45	13
Net cash generated from/(used in) investing activities	4,092	(2,114)
Cash flows from financing activities		
Interest payments	(450)	(610)
Net cash used in financing activities	(450)	(610)
Net increase/(decrease) in cash and cash equivalents	9,247	(1,236)
Cash and cash equivalents at beginning of period	6,170	11,324
Cash and cash equivalents at end of period	15,417	10,088

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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 the GEM of the Stock Exchange since 13 January 2017. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350 Grand Cayman KY1-1108, Cayman Islands and its principal place of business is 66 Oujiang Road, Haimen Economic Development Zone, Nantong City, the Jiangsu Province, the People's Republic of China (the "**PRC**").

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's unaudited consolidated results for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules and Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The HKICPA has issued a number of amendments to HKFRSs which are effective for the current accounting period of the Group. None of those developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The accounting policies adopted in preparing the unaudited consolidated results for the six months ended 30 June 2019 are consistent with those adopted in the financial statements of the Group for the year ended 31 December 2018.

The consolidated results of the Group for the six months ended 30 June 2019 are unaudited but have been reviewed by the audit committee of the Company.

3. REVENUE

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

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

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of fiberglass reinforced plastic				
– fiberglass reinforced plastic (“FRP”) grating	15,335	14,614	26,312	23,713
– United States Coast Guard (“USCG”) approved phenolic grating	1,025	722	1,252	1,624
– composite subway evacuation platform	–	317	–	1,911
– epoxy wedge strip	5,708	3,073	10,716	4,050
– FRP crossties	–	–	–	1,197
	<u>22,068</u>	<u>18,726</u>	<u>38,280</u>	<u>32,495</u>

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

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

4. OTHER REVENUE AND OTHER NET INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other revenue				
Interest income on bank deposits	31	9	45	12
Government grants	–	–	–	277
Sundries	45	–	68	2
	<u>76</u>	<u>9</u>	<u>113</u>	<u>291</u>
Other net income				
Net foreign exchange gain	<u>146</u>	<u>–</u>	<u>146</u>	<u>–</u>

5. PROFIT/(LOSS) BEFORE TAXATION

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

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(a) Finance costs				
Interest on bank borrowings	<u>225</u>	<u>305</u>	<u>448</u>	<u>607</u>
(b) Staff costs (including directors' emoluments)				
Salaries, wages and other benefits	2,750	3,096	5,203	6,082
Contributions to defined contribution retirement plans	262	272	552	516
Equity-settled share-based payments	<u>100</u>	<u>100</u>	<u>200</u>	<u>200</u>
	<u>3,112</u>	<u>3,468</u>	<u>5,955</u>	<u>6,798</u>
(c) Other items				
Amortisation prepaid lease payments	10	10	19	19
Depreciation for property, plant and equipment	805	452	1,172	929
Cost of inventories recognised as expense (note (i))	13,063	12,919	23,265	23,488
Research and development costs (note (ii))	<u>2,575</u>	<u>451</u>	<u>4,186</u>	<u>1,092</u>

Notes:

- (i) Cost of inventories recognised as expenses include RMB3,585,000 (six months ended 30 June 2018: RMB3,723,000) relating to staff costs, and RMB794,000 (six months ended 30 June 2018: RMB574,000) relating to depreciation for property, plant and equipment, the amounts of which are also included in the total amount disclosed separately above for each of these types of expenses.
- (ii) Included in the research and development costs is staff cost of RMB581,000 (six months ended 30 June 2018: RMB542,000) the amount of which is also included in the total amount separately disclosed for this type of expense.

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

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax				
PRC Enterprise Income Tax (“EIT”) on profits of the Group’s subsidiary	1,154	430	1,513	403
Deferred tax				
Origination and reversal of temporary differences in respect of withholding tax on distributable profits of the Group’s PRC subsidiary	<u>319</u>	<u>136</u>	<u>427</u>	<u>87</u>
	<u>1,473</u>	<u>566</u>	<u>1,940</u>	<u>490</u>

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.

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

7. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

8. EARNINGS/(LOSS) PER SHARE

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

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit/(Loss) attributable to owners of Company for the purpose of calculating basic earnings/(loss) per share	<u>1,819</u>	<u>516</u>	<u>2,196</u>	<u>(826)</u>
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>

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

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 <i>RMB'000</i> (Unaudited)	As at 31 December 2018 <i>RMB'000</i> (Audited)
Trade receivables	33,530	36,594
Less: allowance for doubtful debts	(1,393)	(1,396)
	32,137	35,198
Bills receivables	8,319	11,163
Trade and bills receivables, net	40,456	46,361
Other receivables	1,140	968
Prepayments and deposits	49	2,077
Current portion of leasehold land held for own use under an operating lease	38	38
	41,683	49,444

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.

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

	As at 30 June 2019 <i>RMB'000</i> (Unaudited)	As at 31 December 2018 <i>RMB'000</i> (Audited)
0 – 30 days	11,893	11,568
31 – 90 days	11,947	13,392
91 – 180 days	5,958	14,656
181 – 365 days	10,658	3,978
Over 365 days	–	2,767
	40,456	46,361

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

10. TRADE AND OTHER PAYABLES

	As at 30 June 2019 <i>RMB'000</i> (Unaudited)	As at 31 December 2018 <i>RMB'000</i> (Audited)
Trade payables	5,032	8,866
Bills payables	5,160	6,680
Total trade and bills payables	10,192	15,546
Other payables	2,834	6,227
	13,026	21,773

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

	As at 30 June 2019 <i>RMB'000</i> (Unaudited)	As at 31 December 2018 <i>RMB'000</i> (Audited)
0 – 30 days	2,456	4,265
31 – 90 days	6,129	3,826
91 – 180 days	1,309	3,848
181 – 365 days	298	3,607
Over 365 days	–	–
	10,192	15,546

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

11. SHARE CAPITAL

	Number of shares		Nominal value	
	As at 30 June 2019 '000 (Unaudited)	As at 31 December 2018 '000 (Audited)	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Authorised:				
Ordinary shares of HK\$0.01 each	<u>2,000,000</u>	<u>2,000,000</u>	<u>20,000</u>	<u>20,000</u>
			<i>RMB'000</i>	<i>RMB'000</i>
Issued and fully paid				
Ordinary shares of HK\$0.01 each	<u>400,000</u>	<u>400,000</u>	<u>3,600</u>	<u>3,600</u>

12. RELATED PARTY TRANSACTIONS

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

	For the three months ended 30 June		For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Short-term employee benefits	297	295	646	582
Post-employment benefits	40	40	80	80
Equity-settled share-based payments	<u>100</u>	<u>100</u>	<u>200</u>	<u>200</u>
	<u>437</u>	<u>435</u>	<u>926</u>	<u>862</u>

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified and represented so as to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Review and Prospect

The Group is an established and leading manufacturer in the PRC engaged in the research and development, production and sale of a variety of FRP products. The Group's major products consist of: (i) FRP grating products; (ii) USCG approved phenolic grating products; (iii) composite subway evacuation platform products; (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 characterized 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. 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 wide 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 coming two years in light of gradual maturity and better understanding of the FRP market in future.

For the six months ended 30 June 2019, the sales performance of composite subway evacuation platform products and FRP crosstie products were not as satisfactory as FRP grating products and epoxy wedge strip products. The Group will therefore exert extra efforts in marketing campaign for composite subway evacuation platform products and FRP crosstie products by taking part actively in more trade fairs for exploring overseas markets. Moreover, the Group adheres to the policy in promoting its products especially FRP crosstie products in countries along the "Belt and Road Initiatives". With all these efforts, the Group is hopeful that the performances of composite subway evacuation platform products and FRP crosstie products would turn around by the end of this year.

Although there has been a sign of improvement for macro-economic conditions in the PRC, there have also been ups and downs in the trade negotiations between the PRC and the United States of America ("US"). According to the Chinese National Bureau of Statistics, the gross domestic product of the PRC increased by 6.3% in the first half of 2019 compared to a year earlier. Prior to May 2019, the trade negotiations between the PRC and the US went on satisfactorily to both parties and it was generally believed that a final deal will be closed out very soon. However, in early May 2019, the US threatened to impose additional 15% tariff on the US\$200 billion of imports from the PRC and US\$325 billion of imports from the PRC which is previously tariff free will be subject to a tariff rate of 25% due to unsatisfactory progress of the trade negotiation according to the US government. The tense situation turned around in June 2019 when the US called

off the plan on additional tariff during the G20 summit held in Japan. While the trade negotiations between the two countries resumed after the G20 summit, however, on 1 August 2019, US president Donald Trump announced that he would impose new tariffs of 10% on the remaining US\$300 billion worth of Chinese imports commencing from 1 September 2019. Given the uncertain situations, the Group will need to participate proactively in tender bidding for all potential projects both in the PRC and the overseas markets. In addition, the Group will continue to enhance product recognition by improving production technology in order to maintain effective cost control and strengthen the competitiveness. Meanwhile, the Group will recruit more talents to fulfill its development and expansion.

Financial Review

The Group posted a consolidated revenue of approximately RMB38.3 million for the six months ended 30 June 2019, representing an increase of approximately RMB5.8 million or 17.8% as compared to the corresponding period in 2018. The increase in revenue was primarily driven by the increase in sales revenue generated from sales of FRP grating products and epoxy wedge strip products, which was offset by the decrease in sales of USCG approved phenolic grating products, composite subway evacuation platform products and FRP crosstie products. Moreover, sales of overseas markets increased by approximately 21.2% to approximately RMB21.2 million for the six months ended 30 June 2019 from approximately RMB17.5 million for the same period in 2018. The overseas markets contributed 55.5% of total sales for the six months ended 30 June 2019, which has increased by approximately 1.6 percentage points in comparison with that of approximately 53.9% for the six months ended 30 June 2018.

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

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Sales revenue RMB'000	Gross profit margin %	Sales revenue RMB'000	Gross profit Margin %
FRP grating products	26,312	35.1	23,713	26.5
USCG approved phenolic grating products	1,252	47.2	1,624	43.8
Composite subway evacuation platform products	–	–	1,911	15.4
Epoxy wedge strip products	10,716	48.5	4,050	33.4
FRP crosstie products	–	–	1,197	22.5
	<u>38,280</u>	<u>39.2</u>	<u>32,495</u>	<u>27.7</u>

During the six months ended 30 June 2019, sales of FRP grating products remained the largest contributor to the Group's revenue and it accounted for approximately 68.7% of the total revenue of the Group. The percentage of contribution has decreased by 4.3 percentage points in comparison with the corresponding six months in 2018. 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 US and the United Kingdom ("UK") who generally buy the products on per purchase order basis with no distribution arrangement. Revenue derived from sales of FRP grating products increased by approximately 11.0% from approximately RMB23.7 million for the six months ended 30 June 2018 to approximately RMB26.3 million for the six months ended 30 June 2019. This was mainly attributable to the increase in sales in the overseas markets, especially in the UK. The gross profit margin increased by approximately 8.6 percentage points from 26.5% for the six months ended 30 June 2018 to 35.1% for the six months ended 30 June 2019, which was mainly due to the decrease 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 decreased by approximately 22.9% from approximately RMB1.6 million for the six months ended 30 June 2018 to approximately RMB1.3 million for the six months ended 30 June 2019. The reduction was due to the downturn in the shipbuilding industry in China and nearby surrounding countries, which caused the customers to be more conservative on placing new orders. The gross profit margin increased by approximately 3.4 percentage points from approximately 43.8% for the six months ended 30 June 2018 to approximately 47.2% for the six months ended 30 June 2019. 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 products were sold to main contractors who principally engaged in railway construction works in the PRC. Due to the prolonged suspension in placing order from railway construction customers, there was no revenue derived from sales of composite subway evacuation platform products for the six months ended 30 June 2019.

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 RMB6.6 million or 164.6% from approximately RMB4.1 million for the six months ended 30 June 2018 to approximately RMB10.7 million for the six months ended 30 June 2019. This was mainly due to the acquisition of new customers and the resumption of confidence from the existing customers in the wind turbine manufacturing industry regardless of the imposition of controlling measures by the government. The gross profit margin increased by 15.1 percentage points from approximately 33.4% for the six months ended 30 June 2018 to approximately 48.5% for the six months ended 30 June 2019. The increase in gross profit margin can be explained by the increase in 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. Due to the prolonged suspension in placing order from railway construction customers, there was no revenue derived from sales of FRP crosstie products for the six months ended 30 June 2019.

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

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Average selling price per unit RMB	Volume	Average selling price per unit RMB	Volume
FRP grating products	267.8	98,250 m²	267.7	88,580 m ²
USCG approved phenolic grating products	631.6	1,982 m²	611.2	2,657 m ²
Composite subway evacuation platform products	–	–	349.6	5,468 m ²
Epoxy wedge strip products	66.3	161,760 m	45.6	88,799 m
FRP crosstie products	–	–	17,777.8	67 m ³

The average selling price of the FRP grating products per m² slightly increased by approximately RMB0.1 per m² from RMB267.7 per m² for the six months ended 30 June 2018 to RMB267.8 per m² for the six months ended 30 June 2019, with an increase in sales volume of approximately 10.9% in comparison between the two periods. The increase in sales volume was due to the increase in sales for the overseas markets.

The average selling price of the USCG approved phenolic grating products per m² increased by approximately 3.3% from RMB611.2 per m² for the six months ended 30 June 2018 to RMB631.6 per m² for the six months ended 30 June 2019, with a decrease in sales volume of approximately 25.4% in comparison between the two periods. The increase in average selling price was mainly due to the increased level of complexity in the cutting technique which allowed an increase in the average selling price of this product category.

The average selling price of the epoxy wedge strip products per m increased by approximately 45.4% from RMB45.6 per m for the six months ended 30 June 2018 to RMB66.3 per m for the six months ended 30 June 2019, with an increase in sales volume of approximately 82.2% in comparison between the two periods. Due to the significant increase in demand for epoxy wedge strip products, the Group was in a better position to fetch higher selling prices for epoxy wedge strip products.

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

	For the six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
PRC	17,048	14,973
US	9,504	9,174
UK	8,276	6,522
Others	3,452	1,826
Total	38,280	32,495

Sales to the PRC market increased by approximately 13.9% from approximately RMB15.0 million for the six months ended 30 June 2018 to approximately RMB17.0 million for the six months ended 30 June 2019, which was mainly attributable to the significant increase in sales of epoxy wedge strip products to the PRC customers during the six months ended 30 June 2019.

Sales to the US market increased by approximately 3.6% from approximately RMB9.2 million for the six months ended 30 June 2018 to approximately RMB9.5 million for the six months ended 30 June 2019, mainly because of the increase in sales orders from the major customers in the US market.

Sales to the UK market also increased by approximately 26.9% from approximately RMB6.5 million for the six months ended 30 June 2018 to approximately RMB8.3 million for the six months ended 30 June 2019, mainly because of the increase in sales orders from the major customers and acquisition of new customers in the UK market.

Sales to the other locations increased by approximately 89.0% from approximately RMB1.8 million for the six months ended 30 June 2018 to approximately RMB3.5 million for the six months ended 30 June 2019, mainly because of new customers acquired in Belgium, France and South Africa.

Selling and distribution costs

The selling and distribution costs of the Group decreased by approximately RMB621,000, or 20.4% to approximately RMB2.4 million for the six months ended 30 June 2019 from approximately RMB3.0 million for the six months ended 30 June 2018. The decrease was mainly attributable to reduction in advertising expenses.

Administrative expenses

The administrative expenses increased by approximately RMB2.3 million, or 38.2% to approximately RMB8.3 million for the six months ended 30 June 2019 from approximately RMB6.0 million for the six months ended 30 June 2018. The increase was mainly attributable to the increase in research and development expenses.

Finance costs

Finance costs decreased by approximately RMB159,000 to approximately RMB448,000 for the six months ended 30 June 2019 from approximately 607,000 for the six months ended 30 June 2018, which was mainly due to the partial repayment of bank loan.

Operating results

The Group was able to turn around its operating results from a loss of approximately RMB826,000 for the six months ended 30 June 2018 to a profit of approximately RMB2.2 million for the six months ended 30 June 2019. This was mainly attributable to the significant improvement in the gross profit margin of the products sold by the Group during the six months ended 30 June 2019 compared to that of the corresponding six months in 2018.

Liquidity and financial resources

As at 30 June 2019, the Group held total assets of approximately RMB86.4 million (31 December 2018: approximately RMB92.3 million), including cash and cash equivalents of approximately RMB15.4 million (31 December 2018: approximately RMB6.2 million).

As at 30 June 2019, the Group had total liabilities of approximately RMB34.7 million (31 December 2018: approximately RMB43.0 million) which mainly comprise of bank borrowings amounting to RMB15.0 million (31 December 2018: RMB15.0 million).

As at 30 June 2019, the gearing ratio, expressed as a percentage of net debt (bank borrowing less cash and cash equivalents) over total capital employed (net debt plus total equity attributable to owners of the Company) was a negative of 0.8% (31 December 2018: positive 15.2%). The significant reduction in gearing ratio was mainly attributable to the increase in cash and cash equivalents as at 30 June 2019.

Capital structure

As at 30 June 2019, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (31 December 2018: RMB3,600,000) and RMB51,663,000 (31 December 2018: RMB49,267,000) respectively.

Cash flows

The Group reported net cash flows of approximately RMB5.6 million generated from operations for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately RMB1.5 million). The significant increase in net cash flows generated from operations in comparison between the two periods was mainly attributable to the surge in net profit of the Group for the six months ended 30 June 2019.

Net cash generated from investing activities was approximately RMB4.1 million for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately RMB2.1 million used in investing activities). The change from net cash outflows to net cash inflows in investing activities in comparison between the two periods was mainly due to the disposal of financial assets at fair value through other comprehensive income during the six months ended 30 June 2019.

Net cash used in financing activities was approximately RMB450,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately RMB610,000). The increase in net cash used in financing activities was mainly due to decrease in interest payment during the six months ended 30 June 2019 compared to that of the corresponding six months in 2018.

Contingent liabilities

As at 30 June 2019, the Group had no contingent liabilities (31 December 2018: Nil).

Exposure to fluctuations in exchange rates and related hedges

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

- (i) the accounting and finance department would closely monitor the movement of relevant exchange rates to ensure that the net exposure is kept to an acceptable level;
- (ii) quotations provided to our overseas customers are generally valid for one to three months only;
- (iii) in the event that the relevant exchange rates fluctuate more than 5.0%, the Directors and senior management would be notified such that appropriate actions could be carried out in a timely manner to address any foreign exchange risks;
- (iv) if the fluctuation in the relevant exchange rates exceeds 8.0% for more than two months, the pricing policy would be adjusted accordingly to reflect such change; and

- (v) the Directors would regularly review the analysis prepared by the accounting and finance department and assess whether there is any material and adverse impact on the Group's financial performance and whether any hedging or derivative financial instruments should be entered into for managing the foreign exchange risk exposures.

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

Charge on Group Assets

As at 30 June 2019, the Group had the following charges on its assets:

- (i) leasehold land held for own use under operating lease with a carrying value of RMB1,418,000 as at 30 June 2019 (31 December 2018: RMB1,436,000) and the building with a carrying value of RMB9,530,000 as at 30 June 2019 (31 December 2018: RMB9,417,000) were pledged for a bank borrowing of RMB15,000,000 (31 December 2018: RMB 15,000,000);
- (ii) no amount (31 December 2018: RMB50,000) was placed in a bank account and pledged in favour of banks for bill issuance and customers in relation to some sales transactions; and
- (iii) bills receivables of RMB5,860,000 (31 December 2018: RMB6,800,000) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

Material Acquisition and Disposal

There was no acquisition and disposal of subsidiaries and associated company by the Group during the six months ended 30 June 2019.

Employees and Remuneration Policies

As at 30 June 2019, the Group had 142 employees (31 December 2018: 135). The total staff costs including Directors' remuneration for the six months ended 30 June 2019 were approximately RMB6.0 million (six months ended 30 June 2018: approximately RMB6.8 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.

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 30 June 2019 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 composite 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	1,867 (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

Business objectives	Planned use of proceeds (HK\$'000)	Actual use of proceeds (HK\$'000)
– 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
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	205 (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
	16,595	7,899

Note:

1. Acquisition of hydraulic presses will be materialized in the second half of 2019 as sales orders for the composite subway evacuation products are expected to be received in the second half of 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 the second half of 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 specifications of products developed, it is expected that there will be further use of proceeds until such modifications complete.
4. It is expected that additional suitable candidate with appropriate calibre would be hired in the second half year of 2019.

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

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company (the “**Shares**”), underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (“**SFO**”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) pursuant to section 352 of the SFO to be entered in the register referred to therein pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors and to be notified to the Company and the Stock Exchange were as follows:

(i) Long position in the Shares

Name	Capacity/Nature of interest	Number of ordinary shares held/ interested in	Percentage of interest in the Company
Mr. Jiang Guitang (“ Mr. Jiang ”) (Notes 1 and 2)	Interest held jointly with other persons; interest in a controlled corporation	163,600,000	40.9%

Notes:

1. Mr. Jiang beneficially owns 100% of the entire issued share capital of Singa Dragon International Ventures Limited (“**Singa**”). Therefore, Mr. Jiang is deemed, or taken to be, interested in all the Shares held by Singa for the purposes of the SFO.
2. Pursuant to the concert party deed (the “**Concert Party Deed**”) entered into among Mr. Shen Weixing (“**Mr. Shen**”), Mr. Jiang, Munsing Developments Limited (“**Munsing**”) and Singa dated 16 December 2016, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under The Codes on Takeovers and Mergers and Share Buy-backs) since 1 January 2014, and that Mr. Shen, Mr. Jiang, Munsing and Singa are parties acting in concert until the date of any written termination by them. As such, Mr. Jiang, together with Mr. Shen, Munsing and Singa together controlled 40.9% of the entire issued share capital of the Company as at 30 June 2019.

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

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

Save as disclosed above, as at 30 June 2019, none of the Directors and chief executive of the Company had any interests or short position in the Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company under section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

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

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

As at 30 June 2019, so far as is known to the Directors, the interests and short positions of the persons or corporations (other than a Director or chief executive of the Company) in the Shares or underlying Shares which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO or, were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are as follows:

Name	Capacity/Nature of interest	Number of ordinary shares held/interested in	Percentage of interest in the Company
Mr. Shen (Notes 1 and 2)	Interest held jointly with other persons; interest in a controlled corporation	163,600,000	40.9%
Munsing (Notes 1 and 2)	Interest held jointly with other persons; beneficial owner	163,600,000	40.9%
Singa (Note 2)	Interest held jointly with other persons; beneficial owner	163,600,000	40.9%
Ms. Gong Hui (Note 3)	Interest of spouse	163,600,000	40.9%
Ms. Chen Lijuan (Note 4)	Interest of spouse	163,600,000	40.9%
Mr. Huang Xuechao	Beneficial owner	118,400,000	29.6%

Notes:

1. Mr. Shen beneficially owns 100% of the entire issued share capital of Munsing. Therefore, Mr. Shen is deemed, or taken to be, interested in all the Shares held by Munsing for the purposes of the SFO.
2. Pursuant to the Concert Party Deed, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under The Codes on Takeovers and Mergers and Share Buy-backs) since 1 January 2014, and that Mr. Shen, Munsing, Singa and Mr. Jiang are parties acting in concert until the date of any written termination by them, As such, Mr. Shen, Munsing, Singa and Mr. Jiang together controlled 40.9% of the entire issued share capital of the Company.
3. Ms. Gong Hui is the spouse of Mr. Shen and is deemed or taken to be interested in all the Shares in which Mr. Shen has, or is deemed to have, an interest for the purpose of the SFO.
4. Ms. Chen Lijuan is the spouse of Mr. Jiang and is deemed or taken to be interested in all the Shares in which Mr. Jiang has, or is deemed to have, an interest for the purpose of the SFO.

Save as disclosed above, as at 30 June 2019, no other persons (other than the Directors and chief executive of the Company) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the six months ended 30 June 2019, the Group did not enter into any transactions which need to be disclosed as connected transactions or continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

Details of the material related party transactions are set out in note 12 of this result announcement. These related party transactions did not constitute connected transactions or continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

The Directors confirm that none of the controlling shareholders, namely Mr. Shen, Mr. Jiang, Munsing and Singa, the Directors and their respective close associates (as defined in the GEM Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the six months ended 30 June 2019 and up to the date of this announcement.

INTEREST OF COMPLIANCE ADVISER

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' dealing in securities of the Company. The Directors confirmed that they have complied with such code of conduct and the required standard of dealings in the six months ended 30 June 2019.

CORPORATE GOVERNANCE CODE

The Directors consider that the Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules in the six months ended 30 June 2019.

AUDIT COMMITTEE

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

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control and risk management systems, nominate and monitor external auditor and to provide advice and comments to the Board on matters related to corporate governance. The Group's unaudited results for the six months ended 30 June 2019 have been reviewed by the audit committee.

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

Hong Kong, 9 August 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 Listed Company Information" page for 7 days from the date of its posting and on the website of the Company at www.nantongrate.com