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MEIGU Technology Holding Group Limited
美固科技控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8349)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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 Holding Group Limited (the "**Company**") collectively and individually accepts 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 herein or 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.*

RESULTS

The Board presents the unaudited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019 (the "**2019 Financial Results**"), together with the comparative figures for the year ended 31 December 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019** *RMB'000* **(Unaudited)**	2018 *RMB'000* (Audited)
Revenue	*4*	**80,269**	74,584
Cost of sales		**(49,180)**	(50,923)
Gross profit		**31,089**	23,661
Other revenue	*5*	**271**	496
Other net gain	*5*	**310**	580
Impairment losses on trade and bills receivables	*11(b)*	**(1,052)**	(555)
Distribution costs		**(5,012)**	(5,614)
Administrative expenses		**(17,745)**	(13,497)
Profit from operations		**7,861**	5,071
Finance costs	*7(a)*	**(645)**	(1,073)
Profit before taxation	*7*	**7,216**	3,998
Income tax	*8(a)*	**(3,742)**	(2,528)
Profit for the year		**3,474**	1,470
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**3,474**	1,470
		RMB cents	*RMB cents*
Earnings per share			
Basic and diluted	*9*	**0.87**	0.37

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**16,306**	17,093
Right-of-use asset		**1,398**	–
Leasehold land held for own use under operating lease		**–**	1,398
Deferred tax assets		**793**	350
		18,497	18,841
Current assets			
Inventories		**5,946**	6,863
Property held for sale		**1,468**	1,468
Contract assets	*10(a)*	**650**	4,444
Trade and other receivables	*11*	**34,282**	49,444
Financial assets at fair value through other comprehensive income		**–**	5,000
Pledged bank deposits		**1,200**	50
Cash and cash equivalents		**19,512**	6,170
		63,058	73,439
Current liabilities			
Trade and other payables	*12*	**16,540**	21,773
Contract liabilities	*10(b)*	**61**	93
Bank borrowings	*13*	**5,000**	15,000
Income tax payable		**2,805**	2,980
		24,406	39,846
Net current assets		**38,652**	33,593
Total assets less current liabilities		**57,149**	52,434
Non-current liabilities			
Deferred tax liabilities		**4,008**	3,167
NET ASSETS		**53,141**	49,267
CAPITAL AND RESERVES			
Share capital		**3,600**	3,600
Reserves		**49,541**	45,667
TOTAL EQUITY		**53,141**	49,267

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Reserves						
	Share capital	**Share premium**	**Capital reserve**	**Share-based payment services**	**Statutory reserve**	**Retained profits**	**Sub-total**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
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
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2019	**3,600**	**20,900**	**9,557**	**1,133**	**4,493**	**9,584**	**45,667**	**49,267**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**3,474**	**3,474**	**3,474**
Equity-settled share-based payments	**–**	**–**	**–**	**400**	**–**	**–**	**400**	**400**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**834**	**(834)**	**–**	**–**
At 31 December 2019	**3,600**	**20,900**	**9,557**	**1,533**	**5,327**	**12,224**	**49,541**	**53,141**

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, 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 period, 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**

(a) **Statement of compliance**

The 2019 Financial Results 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 (the "**HKICPA**") and accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. The 2019 Financial Results 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 2(c) 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 the 2019 Financial Results.

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

(b) **Basis of preparation of the 2019 Financial Results**

The 2019 Financial Results 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 2019 Financial Results 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 2019 Financial Results is the historical cost basis.

Non-current assets held for sales are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of the 2019 Financial Results 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.

(c) Changes in accounting policies

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Payment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015-2017 Cycle	Cycle Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except as described below, the application of the new standard, the amendments to HKFRSs and the interpretation in the current year have had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the 2019 Financial Results.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases*, and the related interpretations.

New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16.

Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, there is no newly capitalised lease as the Group does not have material leases which were classified as operating leases at the date of initial application of HKFRS 16. The Group's leasehold land held for own use previously capitalised with carrying amount of RMB1,436,000 as at 1 January 2019, was reclassified as right-of-use asset upon the initial application of HKFRS 16.

Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

3. POSSIBLE IMPACT OF AMENDMENTS AND A NEW STANDARD ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of the 2019 Financial Results, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in the 2019 Financial Results. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the 2019 Financial Results.

4. REVENUE

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

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of fiberglass reinforced plastic products		
– fiberglass reinforced plastic grating	**52,982**	55,541
– phenolic grating	**2,094**	2,919
– composite subway evacuation platform	**–**	1,912
– epoxy wedge strip	**25,193**	12,749
– fiberglass reinforced plastic crossties	**–**	1,463
	80,269	74,584
Timing of revenue recognition		
A point in time	**80,269**	74,584

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 6(a).

5. OTHER REVENUE AND OTHER NET INCOME

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Other revenue		
Interest income on bank deposits	**50**	21
Interest income on financial assets at fair value through other comprehensive income	**11**	28
Total interest income on financial assets not at fair value through profit or loss	**61**	49
Government grants and other subsidies *(note below)*	**187**	447
Others	**23**	–
	271	496
Other net gain		
Net foreign exchange gain	**310**	580
	310	580

Note:

Included in government grants and other subsidies for the year ended 31 December 2018 was RMB200,000 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.

6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally to the 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.

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Local customers		
The PRC (excluding Hong Kong) (place of domicile)	**41,472**	33,256
Foreign customers		
The United States of America	**17,994**	22,066
The United Kingdom	**13,889**	12,782
Belgium	**3,661**	2,301
France	**1,184**	697
Canada	**473**	329
Germany	**361**	20
Hong Kong	**355**	319
Denmark	**329**	–
Lithuania	**–**	569
South Korea	**–**	481
Uruguay	**9**	347
Kazakhstan	**–**	320
Australia	**–**	224
Others	**542**	873
	38,797	41,328
	80,269	74,584

The geographical locations of property, plant and equipment, right-of-use asset and leasehold land are based on the physical location of the asset under consideration. During the reporting periods, all property, plant and equipment, right-of-use asset 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:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Customer A *(note)*	**10,746**	–
Customer B	**10,006**	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 2018.

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following:

		2019	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
(a)	**Finance costs**		
	Interest on bank borrowings	**645**	1,073
(b)	**Staff costs (including directors' emoluments)**		
	Salaries, wages and other benefits	**12,855**	11,603
	Contributions to defined contribution retirement plans	**1,124**	1,160
	Equity-settled share-based payments	**400**	400
		14,379	13,163
(c)	**Other items**		
	Depreciation/amortisation of right-of-use asset/ leasehold land	**38**	38
	Impairment losses on trade and bills receivables *(note 11(b))*	**1,052**	555
	Depreciation of property, plant and equipment	**2,380**	1,918
	Write-down of inventories	**827**	–
	Cost of inventories recognised as expense *(note (i))*	**53,694**	49,398
	Auditor's remuneration:		
	– auditor of the Company	**787**	755
	– other auditors *(note (ii))*	**28**	28
	Research and development costs *(note (iii))*	**7,780**	3,418

Notes:

(i) Cost of inventories recognised as expenses include RMB5,822,000 (2018: RMB5,899,000) relating to staff costs, RMB1,699,000 (2018: RMB1,204,000) relating to depreciation of property, plant and equipment, RMB5,782,000 (2018: RMB1,632,000) relating to research and development costs and RMB827,000 (2018: Nil) relating to write-down of inventories, for the year ended 31 December 2019, 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 research and development costs are staff cost of RMB1,306,000 (2018: RMB1,040,000) and costs of materials consumed of RMB5,782,000 (2018: RMB1,632,000), the amounts of which are also included in the total amount separately disclosed for each of these types of expenses.

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

(a) Income tax recognised in profit or loss:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current tax		
The PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary		
– current year	**3,277**	1,877
– under/(over)-provision in prior years	**67**	(27)
	3,344	1,850
Deferred tax		
Origination and reversal of temporary differences in respect of		
– provision for impairment losses on trade and bills receivables	**(237)**	40
– write-down of inventories	**(206)**	–
– withholding tax on distributable profits of the Group's PRC subsidiary	**841**	638
	398	678
	3,742	2,528

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

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2019 and 2018, 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 the PRC EIT at 25% (2018: 25%). Dividends declared to Prosperous Composite Material Co., Ltd. ("Prosperous Composite"), as a non-resident shareholder, in respect of profits earned by Nantong Meigu, is subject to the PRC withholding tax at 10%.

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit before taxation	**7,216**	3,998
Notional tax on profit before taxation attributable to the subsidiaries under the tax jurisdiction of the PRC calculated at 25%	**2,787**	1,850
Notional tax on loss before taxation attributable to the non-PRC entities of the Group under the tax jurisdiction of Hong Kong calculated at 16.5%	**(649)**	(296)
Under/(over)-provision in prior years	**67**	(27)
Tax effect of non-deductible expenses	**696**	363
Deferred tax provided for the PRC withholding tax on distributable profits of the Group's PRC subsidiary	**841**	638
Actual tax expense	**3,742**	2,528

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for each of the years ended 31 December 2019 and 2018 is based on the following data:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Earnings for the purpose of basic earnings per share		
Profit for the year attributable to the owners of the Company	**3,474**	1,470
	'000	*'000*
Number of shares		
Number of shares at the beginning and the end of the reporting period and the weighted average number of shares	**400,000**	400,000

Basic earnings per share for the year ended 31 December 2019 amounted to 0.87 RMB cent (2018: 0.37 RMB cent) per share.

No diluted earnings per share was presented as there was no potential ordinary shares outstanding during the years ended 31 December 2019 and 2018.

10. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contract assets		
Retention monies receivables	**650**	4,444
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" *(note 11)*	**31,917**	46,361

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 2019 and 2018, included in contract assets were retention monies receivable from the contract customers amounting to RMB650,000 and RMB4,444,000 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 the total consideration of the relevant contracts, that are retained by the contract customers as securities 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, 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 end of each reporting period. The Group does not hold any collateral as security for the contract assets at the end of each reporting period.

At 31 December 2019 and 2018, no allowance for impairment loss on contract assets was made.

(b) Contract liabilities

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contract liabilities		
Sales deposits received	**61**	93

Notes:

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.

Movement in contract liabilities

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Balance at 1 January	**93**	457
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(93)**	(455)
Increase in contract liabilities as a result of receiving sales deposits during the year	**61**	91
Balance at 31 December	**61**	93

11. TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**33,011**	36,594
Less: allowance for doubtful debts *(note (i) below)*	**(2,349)**	(1,396)
	30,662	35,198
Bills receivables *((c) below)*	**1,255**	11,163
Trade and bills receivables, net *((a) and (b) below)*	**31,917**	46,361
Other receivables	**865**	968
Prepayments and deposits	**1,500**	2,077
Current portion of leasehold land held for own use under operating lease	**–**	38
	34,282	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 repayable on demand.

Note:

(i) The Group determines the provision for impairment of trade and bills receivables on a forward looking basis and expected lifetime losses are recognised from initial recognition of the assets and remeasured at the end of each reporting period.

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 each 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:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 – 30 days	**11,660**	11,568
31 – 90 days	**11,624**	13,392
91 – 180 days	**3,428**	14,656
181 – 365 days	**4,285**	3,978
Over 365 days	**920**	2,767
	31,917	46,361

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

(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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At 1 January	**1,396**	1,563
Impairment loss recognised	**1,052**	555
Bad debt written off	**(99)**	(722)
At 31 December	**2,349**	1,396

As at 31 December 2019, trade receivables amounting to RMB2,349,000 (2018: RMB1,396,000) were determined to be impaired according to the expected credit loss rates. Accordingly, allowance for doubtful debts of RMB1,052,000 (2018: RMB555,000) was recognised for the year ended 31 December 2019.

(c) As at 31 December 2019, bills receivables of nil (2018: RMB6,800,000) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

12. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**9,213**	8,866
Bills payables	**1,100**	6,680
Total trade and bills payables	**10,313**	15,546
Other payables	**6,227**	6,227
	16,540	21,773

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 – 30 days	**3,697**	4,265
31 – 90 days	**4,331**	3,826
91 – 180 days	**1,276**	3,848
Over 180 days	**1,009**	3,607
	10,313	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.

13. BANK BORROWINGS

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Fixed rate term loans from banks due for repayment within 1 year or repayable on demand		
Secured bank borrowings *(note below)*	**5,000**	15,000

Note: As at 31 December 2019 and 2018, the bank borrowings were secured by buildings of approximately RMB9,171,000 (2018: approximately RMB9,417,000) and a right-of-use asset (2018: leasehold land) of approximately RMB1,398,000 (2018: approximately RMB1,436,000) of the Group. It was further guaranteed by an independent third party guarantee company in the PRC.

14. 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:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Short-term employee benefits	**2,427**	2,596
Post-employment benefits	**141**	172
Equity-settled share-based payments	**400**	400
	2,968	3,168

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

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 next two years in the light of gradual maturity and better understanding of the FRP market in future.

The Group continues 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. The Board believes that research and development capabilities are essential to the future growth of the Group. In the year ended 31 December 2019, the Group spent approximately RMB7.8 million (2018: approximately RMB3.4 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 30 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 2020.

Leveraging on market trend information gathered by the sales and marketing team and participation in drafting the PRC industry standards, the Group constantly keeps track of developments and trends in the FRP industry worldwide. Over the past years, the Group closely followed up with the PRC government's macroeconomic stimulus when carrying out the research and development works. 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 Groups is hopeful that the performance of composite subway evacuation platform products and FRP crosstie products would turn around in the following year.

It is generally believed that effective market is important in capturing the market share and attracting potential customers and as such, in the year ended 31 December 2019, the Group undertook the following marketing activities:

i. participation in trade fairs and sales conventions including the JEC World 2019 held in France and WEFTEC 2019 held in the United States of America ("U.S.");

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 2019, 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 2019, there were no material work-related injuries or fatalities at the production facilities, and no prosecution has been made against the Group by the relevant government authorities in the PRC in respect of the breach of applicable health and safety laws and regulations.

Details of the measures on minimizing any negative impact on the environment and occupational health and safety measure will be set out in the environment, social and governance report in the 2019 annual report of the Company.

With the extensive experience and market recognition of products which the Group has accumulated since more than a decade ago, as well as the expending 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 products market going forward.

PROSPECTS

Although the U.S. and the PRC governments entered into an agreement for easing the tension of the trade war in January 2020, there was no sign of removing the import tariff of the Group's products sold to the U.S., which took effect from 1 September 2019. Since most of the import tariff for the U.S. exports of the Group was born by the U.S. importer, it is expected that the tariff levied on the Group's U.S. export will not cause significant impact to the Group financially.

Economic environment remains uncertain as the second phase of trade negotiation between the U.S. and PRC governments is being held. In order to cater for this uncertainty, the Group will need to take part more rigorously in tender bidding for all potential projects both in the PRC and the overseas markets. Moreover, the Group will continue to enhance product recognition by improving production technology so as to maintain effective cost control and strengthen the competitiveness. Further, the Group will recruit more experienced talents to fulfil the Group's mission in product research, development and market expansion.

After the outbreak of the novel coronavirus ("COVID-19"), the PRC central government has adopted a series of prevention and control measures, including the regional traffic control, restrictions or suspension of sports activities and entertainment, as well as delayed resumption of factory production, etc. This has undoubtedly led to temporary negative impact to the economic activities and hence the PRC central government has implemented a series of measures to mitigate the negative impact to the economy, such as reduction of tax, fees, interest rate and rent. Given the resilience and potential of China's economy in the long run, it is believed that stable growth would remain unchanged.

Looking ahead, the Group remains prudent and optimistic about the prospects of its business in the long run. The Group will follow a cautious approach to ensure continuous, steady and effective business and operation development in 2020. While the Group is closely monitoring the latest development of the epidemic disease resulting from the outbreak of COVID-19 and its impact on the industry at large, it would adjust its strategies from time to time when required.

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB80.3 million for the year ended 31 December 2019, representing an increase of approximately RMB5.7 million or 7.6% as compared to that of approximately RMB74.6 million for the year of 2018. The increase in revenue was primarily driven by the substantial increase in sales revenue generated from sales of epoxy wedge strip products.

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

	For the year ended 31 December			
	2019		2018	
	Sales revenue	**Gross profit margin**	Sales revenue	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*
FRP grating products	**52,982**	**31.4**	55,541	34.4
USCG approved phenolic grating products	**2,094**	**47.9**	2,919	44.2
Composite subway Evacuation platform products	**–**	**–**	1,912	15.4
Epoxy wedge strip products	**25,193**	**53.5**	12,749	29.9
FRP crosstie products	**–**	**–**	1,463	22.5
	80,269	**38.7**	74,584	31.7

In the year ended 31 December 2019, sales of FRP grating products remained the largest contributor to the Group's revenue and it accounted for approximately 66.0% (2018: 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 U.S. and the United Kingdom ("U.K.") who generally buy the products on per purchase order basis with no distribution arrangement. Revenue derived from sales of FRP grating products decreased by 4.6% from approximately RMB55.5 million in the year ended 31 December 2018 to approximately RMB53.0 million in the year ended 31 December 2019. This was mainly due to the decrease in sales in the overseas market. The gross profit margin decreased by approximately 3 percentage points from 34.4% to 31.4%, 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 decreased by 28.3% from approximately RMB2.9 million in the year ended 31 December 2018 to approximately RMB2.1 million in the year ended 31 December 2019. The sharp reduction was due to the downturn in the shipbuilding industry in China and nearby surrounding countries, which caused the customers to be more conservative in placing new orders. The gross profit margin increased by approximately 3.7 percentage points from 44.2% for the year ended 31 December 2018 to 47.9% for the year ended 31 December 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 year ended 31 December 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 RMB12.4 million or 97.6% from approximately RMB12.7 million for the year ended 31 December 2018 to approximately RMB25.2 million for the year ended 31 December 2019. 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 the imposition of controlling measures by the government. The gross profit margin increased by approximately 23.6 percentage points from approximately 29.9% for the year ended 31 December 2018 to 53.5% for the year ended 31 December 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 crosstie for the railway sector. The target customers of such products are (i) PRC railway corporation 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 year ended 31 December 2019.

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

	For the year ended 31 December			
	2019		2018	
	Average selling price per unit	**Volume**	Average selling price per unit	Volume
	RMB		*RMB*	
FRP grating products	**272.4**	**194,479 m^2**	281.1	197,606 m^2
USCG approved phenolic grating products	**663.3**	**3,157 m^2**	623.2	4,684 m^2
Composite subway evacuation platform products	**–**	**–**	349.6	5,468 m^2
Epoxy wedge strip products	**64.5**	**390,552 m**	60.0	212,703 m
FRP crosstie products	**–**	**–**	17,931.0	81 m^3

The average selling price of the FRP grating products per m^2 decreased by approximately 3.1% from RMB281.1 per m^2 for the year ended 31 December 2018 to RMB272.4 per m^2 for the year ended 31 December 2019, with a decrease in sales volume of approximately 1.6% in comparison between the two years. The slight decrease in average selling price was mainly due to the variations in the composition of lower priced FRP grating products sold.

The average selling price of the USCG approved phenolic grating products per m^2 increased by approximately 6.4% from RMB623.2 per m^2 for the year ended 31 December 2018 to RMB663.3 per m^2 for the year ended 31 December 2019, with a reduction in sales volume of approximately 32.6% 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 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 7.5% from RMB60.0 per m for the year ended 31 December 2018 to RMB64.5 per m for the year ended 31 December 2019, with an increase in sales volume of approximately 83.6% in comparison between the two years. 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 area are as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
PRC	**41,472**	33,256
U.S.	**17,994**	22,066
U.K.	**13,889**	12,782
Others	**6,914**	6,480
Total	**80,269**	74,584

Sales to the PRC market increased by approximately 24.7% from approximately RMB33.3 million for the year ended 31 December 2018 to approximately RMB41.5 million for the year ended 31 December 2019. This was mainly attributable to the significant increase in sales of epoxy wedge strip products to the PRC customers during the year ended 31 December 2019.

Sales to the U.S. market decreased by approximately 18.5% from approximately RMB22.1 million for the year ended 31 December 2018 to approximately RMB18.0 million for the year ended 31 December 2019, mainly because of the decrease in demands for FRP grating products by customers in the U.S. market.

Sales to the U.K. market increased by approximately 8.7% from approximately RMB12.8 million for the year ended 31 December 2018 to approximately RMB13.9 million for the year ended 31 December 2019, mainly because of the increase in sales orders from the major customers and acquisition of new customers in the U.K. market.

Sales to the other locations increased by approximately 6.7% from approximately RMB6.5 million for the year ended 31 December 2018 to approximately RMB6.9 million for the year ended 31 December 2019, mainly because of new customers acquired in Belgium, France and Canada.

OPERATING COSTS AND EXPENSES

Distribution costs decreased by approximately RMB0.6 million or 10.7% to approximately RMB5.0 million in the year ended 31 December 2019 from approximately RMB5.6 million in the year ended 31 December 2018. The decrease was mainly attributable to the decrease in wages and salaries, and exhibition expenses.

Administrative expenses increased by approximately RMB4.3 million or 31.5% to approximately RMB17.8 million in the year ended 31 December 2019 from approximately RMB13.5 million in the year ended 31 December 2018. The increase was mainly attributable to the increase in research and development expense, and impairment loss on inventory.

Finance costs decreased by approximately RMB0.4 million to approximately RMB0.6 million in the year ended 31 December 2019 from approximately RMB1.0 million in the year ended 31 December 2018. The decrease was mainly due to the repayment of bank loans and the reduction of bank interest rates for the year ended 31 December 2019.

OPERATING RESULTS

There was a substantial increase of approximately 136.3% in net profit for the year from approximately RMB1.5 million for the year ended 31 December 2018 to approximately RMB3.5 million for the year ended 31 December 2019. This substantial increase in net profit for the year ended 31 December 2019 was mainly attributable to (i) the increase in total revenue of Group for the year ended 31 December 2019 and (ii) the improvement in the gross profit margin of the products sold by the Group during the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group held total assets of approximately RMB81.6 million (2018: approximately RMB92.3 million), including cash and cash equivalents of approximately RMB19.5 million (2018: approximately RMB6.2 million).

As at 31 December 2019, the Group had total liabilities of approximately RMB28.4 million (2018: RMB43.0 million) which comprise trade and other payables of approximately RMB16.5 million (2018: RMB21.8 million) and bank borrowings of RMB5 million (2018: RMB15 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%, whereas, as at 31 December 2019, the gearing ratio was not quite meaningful as the Group had a significant amount of cash and cash equivalents to cover more than its bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no contingent liabilities (2018: 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 our overseas customers are generally valid for one to three months only;

(iii) in the event that the relevant exchange rates fluctuate more than 5.0%, the Director and senior management would be notified such that appropriate actions could be carried out in a timely manner to address any foreign exchange risks;

(iv) if the fluctuation in the relevant exchange rates exceeds 8.0% for more than two months, the pricing policy would be adjusted accordingly to reflect such change; and

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

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

CHARGES ON GROUP ASSETS

As at 31 December 2019, the Group had the following charges on its assets:

(i) the right-of-use asset (2018: leasehold land) with a carrying value of RMB1,398,000 as at 31 December 2019 (2018: RMB1,436,000) and the buildings with a carrying value of RMB9,171,000 as at 31 December 2019 (2018: RMB9,417,000) were pledged for bank borrowings of RMB5,000,000 (2018: RMB15,000,000);

(ii) an aggregate amount of RMB1,200,000 (2018: RMB50,000) was placed in a bank account and pledged in favour of banks for bill issuance (2018: for customers in relation to certain sales transactions).

(iii) bills receivables of nil (2018: RMB6,800,000) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

CAPITAL STRUCTURE

As at 31 December 2019, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (2018: RMB3,600,000) and RMB53,141,000 (2018: RMB49,267,000) respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 143 employees (2018: 135). The total staff costs including Directors' remuneration for the year were approximately RMB14.4 million (2018: approximately RMB13.2 million). Remuneration is determined based on each employee's qualifications, position and seniority. In addition to a basic salary, year-end discretionary bonuses were offered with reference to our Group's performance as well as individual's performance to attract and retain appropriate and suitable personnel to serve the Group. Furthermore, the Group offers other staff benefits like provision of retirement benefits, various types of trainings and sponsorship of training courses. The Group also adopts an annual review system to assess the performance of staff, which forms the basis of decisions with respect to salary rises and promotions.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: 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 2019.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associates and joint ventures as at 31 December 2019.

CASH FLOWS

Net cash generated from operating activities was approximately RMB20.6 million (2018: RMB10.3 million) for the financial year ended 31 December 2019. The increase in net cash generated was resulted from the increase in working capital generated from operating activities during the year ended 31 December 2019.

The Group reported net cash flows of approximately RMB3.5 million generated from investing activities for the financial year ended 31 December 2019 compared to that of approximately RMB9.4 million used in investing activities for the corresponding year of 2018. The swing from cash outflows to cash inflows in respect of investing activities was largely due to the disposal of financial asset at fair value through other comprehensive income, which were bank wealth management products for short term investment purpose.

Net cash used in financing activities was approximately RMB10.6 million (2018: RMB6.1 million) for the financial year ended 31 December 2019. The increase in net cash used was mainly due to the increase in net outflows from the repayment of bank loans and proceeds from bank borrowings during the year ended 31 December 2019.

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 2019 is as follows:

Business objective	**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 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	2,052 *(Note 2)*

Business objective	**Planned use of proceeds** *(HK$'000)*	**Actual use of proceeds** *(HK$'000)*
2. Further development of the products according to the expected growth trend as a result of the PRC's macroeconomic policies in promoting "Belt and Road Initiatives":		
– Redefine the features and characteristics of the new FRP crosstie products via communication with the existing and potential customers and conduct trial production	1,100	1,100
– Development of the relevant quality control and testing equipment of the new FRP crosstie products	245	245
– Development and purchase of new production equipment for the new FRP crosstie products once the products are recognized by, and mass production orders are expected from potential customers	4,520	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 objective	Planned use of proceeds *(HK$'000)*	Actual use of proceeds *(HK$'000)*
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	259 *(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	8,138

Note:

1. Acquisition of hydraulic presses will be materialized in the second half of 2020 as sales orders for the composite subway evacuation products are expected to be received in the second half of 2020.

2. Purchase of automated FRP moulding production facilities will depend on the progress in the research and development of new products with better quality and lower labour costs, the schedule and timing of which cannot be estimated precisely. However, it is expected that there will be further spending on the automation of the production facilities in the first half of 2020.

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 2020.

CORPORATE GOVERNANCE PRACTICES

Throughout the financial year ended 31 December 2019, 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 2019.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

Save as disclosed below, there has been no other material event affecting the Group since the end of the reporting period.

On 3 January 2020, Singa Dragon International Ventures Limited ("**Singa**") (as vendor), one of the controlling shareholders of the Company and wholly owned by Mr. Jiang Guitang, an executive Director, entered into a share transfer agreement with Yunhong Group Co., Limited ("**Yunhong**") (as purchaser) to sell 40,000,000 shares of the Company (the "**Shares**") beneficially held by Singa (representing 10% of the total number of issued Shares) to Yunhong at a price of HK$0.16 per share, for a total consideration of HK$6,400,000 (the "**Disposal**"). As at the date of this announcement, the Disposal is not yet completed.

On 5 January 2020, Singa entered into a memorandum of agreement with Yunhong (as potential purchaser) in relation to the possible sale and purchase of 123,600,000 Shares beneficially held by Singa (representing 30.9% of the total number of issued Shares) to Yunhong (the "**Possible Transaction**"), which if materialized, may lead to a change in control of the Company and a mandatory general offer under the Code on Takeovers and Mergers issued by the Securities and Futures Commission for all the issued Shares (other than those already owned by or agreed to be acquired by Yunhong or parties acting in concert with it). As at the date of this announcement, Singa and Yunhong have not entered into a formal agreement in relation to the Possible Transaction. For details about the Disposal and the Possible Transaction, please refer to the announcements of the Company dated 3 January 2020, 8 January 2020 and 22 January 2020, 6 February 2020 and 4 March 2020.

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 2019.

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.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed as at the date hereof due to restrictions in force in parts of the PRC to combat the COVID-19 coronavirus outbreak. The unaudited annual results contained herein have not been agreed with the Company's auditor. An announcement relating to the audited results will be published when the auditing process has been completed in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited 2019 Financial Results contained herein have been reviewed by the Audit Committee.

PUBLICATION OF ANNUAL REPORT AND THE AUDITED 2019 FINANCIAL RESULTS

Publication of the annual report of the Group for the year ended 31 December 2019 (the "**Annual Report**") containing all the information required by the GEM Listing Rules and the audited 2019 Financial Results will be delayed due to the outbreak of the COVID-19 which caused a disruption in the auditing process. While the completion of the auditing process depends on the travel restrictions and quarantine arrangements in relation to the COVID-19, it is therefore difficult to estimate a completion date for the auditing process with reasonable preciseness. However, the Group is closely monitoring the current situations in respect of the travel restrictions and quarantine arrangements both in Hong Kong and Mainland China, and hopefully, expects to publish the Annual Report and the audited 2019 Financial Results by 15 May 2020 in accordance with further guidance on the joint statement issued by the Stock Exchange and the Securities and Futures Commission dated 16 March 2020. Further announcement(s) will be made as and when appropriate.

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

Hong Kong, 25 March 2020

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