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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 2020

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

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

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange 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 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 2020, together with comparative figures for the same corresponding period in 2019 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	
		2020	2019	2020	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	3	23,977	22,068	37,008	38,280
Cost of sales		(15,592)	(13,063)	(23,703)	(23,265)
Gross profit		8,385	9,005	13,305	15,015
Other revenue	4	17	76	256	113
Other net gain	4	325	146	406	146
Selling and distribution costs		(995)	(1,320)	(1,938)	(2,419)
Administrative expenses		(3,478)	(4,390)	(6,958)	(8,271)
Profit from operations		4,254	3,517	5,071	4,584
Finance costs	5(a)	(63)	(225)	(126)	(448)
Profit before taxation	5	4,191	3,292	4,945	4,136
Income tax	6	(1,502)	(1,473)	(2,022)	(1,940)
Profit for the period attributable to owners of the Company		2,689	1,819	2,923	2,196
Other comprehensive income for the period		—	—	—	—
Total comprehensive income for the period attributable to owners of the Company		2,689	1,819	2,923	2,196
Earnings per share		RMB cent	RMB cent	RMB cent	RMB cent
Basic and diluted	8	0.67	0.45	0.73	0.55

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		15,374	16,306
Right-of-use asset		1,380	1,398
Deferred tax assets		793	793
		<u>17,547</u>	<u>18,497</u>
Current assets			
Inventories		7,235	5,946
Property held for sale		1,468	1,468
Contract assets		543	650
Trade and other receivables	9	39,048	34,282
Pledged bank deposits		–	1,200
Cash and cash equivalents		8,228	19,512
		<u>56,522</u>	<u>63,058</u>
Current liabilities			
Trade and other payables	10	5,054	16,540
Contract liabilities		68	61
Bank borrowings		5,000	5,000
Income tax payable		3,208	2,805
		<u>13,330</u>	<u>24,406</u>
Net current assets		<u>43,192</u>	<u>38,652</u>
Total assets less current liabilities		60,739	57,149
Non-current liabilities			
Deferred tax liabilities		4,475	4,008
NET ASSETS		<u>56,264</u>	<u>53,141</u>
CAPITAL AND RESERVES			
Share capital	11	3,600	3,600
Reserves		52,664	49,541
TOTAL EQUITY		<u>56,264</u>	<u>53,141</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reserves						Sub-total	Total
	Share capital	Share premium	Capital Reserve	Share-based payment reserve	Statutory reserve	Retained profits		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019								
(Audited)	3,600	20,900	9,557	1,133	4,493	9,584	45,667	49,267
Profit and total comprehensive income for the period	–	–	–	–	–	2,196	2,196	2,196
Equity-settled share-based payments	–	–	–	200	–	–	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>48,063</u>	<u>51,663</u>
At 1 January 2020								
(Audited)	3,600	20,900	9,557	1,533	5,327	12,224	49,541	53,141
Profit and total comprehensive income for the period	–	–	–	–	–	2,923	2,923	2,923
Equity-settled share-based payments	–	–	–	200	–	–	200	200
Transfer to statutory reserve	–	–	–	–	549	(549)	–	–
At 30 June 2020								
(Unaudited)	<u>3,600</u>	<u>20,900</u>	<u>9,557</u>	<u>1,733</u>	<u>5,876</u>	<u>14,598</u>	<u>52,664</u>	<u>56,264</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash (used in)/generated from operating activities	(11,026)	5,605
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(149)	(953)
Proceeds from sales of financial assets at fair value through other comprehensive income	–	5,000
Interest received	18	45
Net cash (used in)/generated from investing activities	(131)	4,092
Cash flows from financing activities		
Interest payments	(127)	(450)
Net cash used in financing activities	(127)	(450)
Net (decrease)/increase in cash and cash equivalents	(11,284)	9,247
Cash and cash equivalents at beginning of period	19,512	6,170
Cash and cash equivalents at end of period	8,228	15,417

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 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 AND ACCOUNTING POLICIES

The Group's unaudited consolidated results for the six months ended 30 June 2020 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 ("**HKFRS**") 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 2020 are consistent with those adopted in the financial statements of the Group for the year ended 31 December 2019.

The consolidated results of the Group for the six months ended 30 June 2020 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	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Sales of fiberglass reinforced plastic				
– fiberglass reinforced plastic (“FRP”) grating	11,303	15,335	18,039	26,312
– United States Coast Guard (“USCG”) approved phenolic grating	163	1,025	163	1,252
– epoxy wedge strip	12,511	5,708	18,806	10,716
	23,977	22,068	37,008	38,280

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 right-of-use asset are based on the physical location of the asset under consideration. During both periods, all property, plant and equipment, and right-of-use asset were located in the PRC.

4. OTHER REVENUE AND OTHER NET GAIN

	For the three months ended 30 June		For the six months ended 30 June	
	2020	2019	2020	2019
	<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	9	31	18	45
Government grants	8	–	228	–
Sundries	–	45	10	68
	<u>17</u>	<u>76</u>	<u>256</u>	<u>113</u>
Other net gain				
Net foreign exchange gain	<u>325</u>	<u>146</u>	<u>406</u>	<u>146</u>

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following items:

	For the three months ended 30 June		For the six months ended 30 June	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(a) Finance costs				
Interest on bank borrowings	<u>63</u>	<u>225</u>	<u>126</u>	<u>448</u>
(b) Staff costs (including directors' emoluments)				
Salaries, wages and other benefits	3,489	2,750	5,508	5,203
Contributions to defined contribution retirement plans	116	262	244	552
Equity-settled share-based payments	<u>100</u>	<u>100</u>	<u>200</u>	<u>200</u>
	<u>3,705</u>	<u>3,112</u>	<u>5,952</u>	<u>5,955</u>
(c) Other items				
Amortisation for a right-of-use asset	10	10	19	19
Depreciation for property, plant and equipment	549	805	1,080	1,172
Cost of inventories recognised as expense (note (i))	16,054	14,824	24,792	25,843
Research and development costs (note (ii))	<u>1,487</u>	<u>2,575</u>	<u>2,804</u>	<u>4,186</u>

Notes:

- (i) Cost of inventories recognised as expense include RMB3,226,000 (six months ended 30 June 2019: RMB3,585,000) relating to staff costs, and RMB794,000 (six months ended 30 June 2019: RMB794,000) 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 are staff cost of RMB660,000 (six months ended 30 June 2019: RMB581,000) and costs of materials consumed of RMB2,050,000 (six months ended 30 June 2019: RMB3,295,000), the amounts of which are also included in the total amount separately disclosed for these types of expenses.

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	
	2020	2019	2020	2019
	<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	1,155	1,154	1,555	1,513
Deferred tax				
Origination and reversal of temporary differences in respect of withholding tax on distributable profits of the Group’s PRC subsidiary	<u>347</u>	<u>319</u>	<u>467</u>	<u>427</u>
	<u>1,502</u>	<u>1,473</u>	<u>2,022</u>	<u>1,940</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.

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2020 and also the corresponding six months in 2019 as the Group did not have assessable profits subject to Hong Kong profits tax during the aforesaid periods.

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 2020 (six months ended 30 June 2019: nil).

8. EARNINGS PER SHARE

The calculation of basic earnings 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	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit attributable to owners of Company for the purpose of calculating basic earnings per share	<u>2,689</u>	<u>1,819</u>	<u>2,923</u>	<u>2,196</u>
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>

Basic earnings per share for the six months ended 30 June 2020 amounted to 0.73 RMB cent (six months ended 30 June 2019: 0.55 RMB cent).

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

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Trade receivables	38,036	33,011
Less: allowance for doubtful debts	(2,349)	(2,349)
	35,687	30,662
Bills receivables	916	1,255
Trade and bills receivables, net	36,603	31,917
Other receivables	912	865
Prepayments and deposits	1,533	1,500
	39,048	34,282

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 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
0 – 30 days	8,362	11,660
31 – 90 days	14,054	11,624
91 – 180 days	6,704	3,428
181 – 365 days	7,483	4,285
Over 365 days	–	920
	36,603	31,917

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 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Trade payables	1,909	9,213
Bills payables	–	1,100
Total trade and bills payables	1,909	10,313
Other payables	3,145	6,227
	5,054	16,540

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

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
0 – 30 days	71	3,697
31 – 90 days	321	4,331
91 – 180 days	720	1,276
181 – 365 days	797	1,009
	1,909	10,313

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 2020 '000 (Unaudited)	As at 31 December 2019 '000 (Audited)	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'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>
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. MATERIAL 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	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Short-term employee benefits	297	297	592	646
Post-employment benefits	11	40	31	80
Equity-settled share-based payments	<u>100</u>	<u>100</u>	<u>200</u>	<u>200</u>
	<u>408</u>	<u>437</u>	<u>823</u>	<u>926</u>

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 2020, the sales performances of FRP grating products and USCG approved phenolic grating products were not as satisfactory as that of epoxy wedge strip products as the former two products suffered a reduction of sales revenue by approximately 31.4% and 87.0% as compared to that of the corresponding six months in 2019. While there was no sales revenue generated in respect of composite subway evacuation platform products and FRP crosstie products for the six months ended 30 June 2020, the Group will have to exert extra efforts in marketing campaign for the Group's products by taking part actively in more trade fairs for exploring overseas and domestic markets. Moreover, the Group continues to adhere to the policy in promoting its products, especially FRP crosstie products, in countries along the "Belt and Road Initiative". With all these efforts, the Group is hopeful that the performances of FRP grating products, USCG approved phenolic grating products, composite subway evacuation platform products and FRP crosstie products would turn around by the end of this year.

Since the outbreak of the novel coronavirus (COVID-19) in January 2020, the PRC central government has adopted a series of prevention and control measures, including regional traffic control, restriction or suspension of entertainment, as well as delayed resumption of factory production, etc. This has undoubtedly caused temporary negative impact on the economy of the country and hence the PRC central government implemented a series of measures to mitigate the negative impact on the economy, such as reduction of tax, fees, interest rate and rent. With the relaxation of the prevention and control measures in April 2020, factory production was allowed to resume. However, it appears that the outbreak of the COVID-19 pandemic has not slowed down and stricter prevention and control measures have been adopted on a global basis. The Group will therefore continue to keep a close attention to the impact caused by the COVID-19 and will take all relevant actions in order to minimize the negative impact on the Group.

Going forward, the Group will need to take part more rigorously in tender bidding for all potential projects both in the PRC and overseas markets. Moreover, the Group will continue to enhance product recognition by improving production technology in order to maintain effective cost control and strengthen its competitiveness. Furthermore, the Group will recruit more experienced talents to fulfill the Group's mission in product research, development and market expansion.

Sales Performance

The Group posted a consolidated revenue of approximately RMB37.0 million for the six months ended 30 June 2020, representing a decrease of approximately RMB1.3 million or 3.3% as compared to the corresponding period in 2019. The decrease in revenue was primarily driven by the decrease in sales revenue generated from sales of FRP grating products and USCG approved phenolic grating products, which was offset by the increase in sales of epoxy wedge strip products. Moreover, sales for the domestic market increased by approximately 27.6% to approximately RMB21.7 million for the six months ended 30 June 2020 from approximately RMB17.0 million for the same corresponding period in 2019. The domestic market contributed approximately 58.8% of total sales for the six months ended 30 June 2020, which has increased by 14.3 percentage points in comparison with that of approximately 44.5% for the six months ended 30 June 2019.

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

	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
	Sales revenue RMB'000	Gross profit margin %	Sales revenue RMB'000	Gross profit Margin %
FRP grating products	18,039	32.3	26,312	35.1
USCG approved phenolic grating products	163	39.8	1,252	47.2
Epoxy wedge strip products	18,806	39.4	10,716	48.5
	37,008	36.0	38,280	39.2

FRP grating products were mainly sold to corporate customers in the PRC who generally are end-users of such products, as well as distributors in the United States of America ("U.S.") and the United Kingdom ("U.K.") who generally buy the products on per purchase order basis with no distribution arrangement. The revenue derived from sales of FRP grating products decreased by approximately RMB8.3 million or 31.4% from approximately RMB26.3 million for the six months ended 30 June 2019 to approximately RMB18.0 million for the six months ended 30 June 2020. This was mainly due to the decrease in sales in the U.S. and U.K. markets. The gross profit margin decreased by 2.8 percentage points from 35.1% for the six months ended 30 June 2019 to 32.3% for the six months ended 30 June 2020, which was mainly due to the increase in costs of raw materials and the continuous payment of workers' wages with low production output resulting from reduction in orders from customers.

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 drastically by approximately 87.0% from approximately RMB1.3 million for the six months ended 30 June 2019 to approximately RMB163,000 for the six months ended 30 June 2020. 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 decreased by approximately 7.4 percentage points from approximately 47.2% for the six months ended 30 June 2019 to approximately 39.8% for the six months ended 30 June 2020. This was mainly due to the inflexibility for the reduction in the fixed costs of production resulting from the substantial decrease in the production volume during the six months period ended 30 June 2020.

During the six months ended 30 June 2020, sales of epoxy wedge strip products became the largest contributor to the Group's revenue and accounted for approximately 50.8% of the total revenue of the Group. Epoxy wedge strip products were developed and targeted for manufacturers of wind turbine blades in the PRC. The revenue derived from sales of epoxy strip products increased by approximately RMB8.1 million or 75.5% from approximately RMB10.7 million for the six months ended 30 June 2019 to approximately RMB18.8 million for the six months ended 30 June 2020. This was mainly due to the acquisition of new customers 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 decreased by 9.1 percentage points from 48.5% for the six months ended 30 June 2019 to 39.4% for the six months ended 30 June 2020. The decrease in gross profit margin can be explained by the increase in cost of production resulting from the changes in demands from customers.

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

	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
	Average selling price per unit RMB	Volume	Average selling price per unit RMB	Volume
FRP grating products	296.7	60,791 m²	267.8	98,250 m ²
USCG approved phenolic grating products	569.8	287 m²	631.6	1,982 m ²
Epoxy wedge strip products	66.7	281,836 m	66.3	161,760 m

The average selling price of the FRP grating products per m² increased by approximately RMB28.9 per m² or approximately 10.8% from RMB267.8 per m² for the six months ended 30 June 2019 to RMB296.7 per m² for the six months ended 30 June 2020, with a decrease in sales volume of approximately 38.1% 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 USCG approved phenolic grating products per m² decreased by approximately 9.8% from RMB631.6 per m² for the six months ended 30 June 2019 to RMB569.8 per m² for the six months ended 30 June 2020, with a decrease in sales volume of approximately 85.5% in comparison between the two periods. The decrease in average selling price was mainly due to the management's attempt to boost sales revenue by lowering average selling price.

The average selling price of the epoxy wedge strip products per m slightly increased by approximately RMB0.4 per m from RMB66.3 per m for the six months ended 30 June 2019 to RMB66.7 per m for the six months ended 30 June 2020, with an increase in sales volume of approximately 74.2% 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 area are as follows:

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
PRC	21,749	17,048
U.S.	6,368	9,504
U.K.	5,686	8,276
Others	3,205	3,452
Total	37,008	38,280

Sales to the PRC market increased by approximately 27.6% from approximately RMB17.0 million for the six months ended 30 June 2019 to approximately RMB21.7 million for the six months ended 30 June 2020, which was mainly attributable to the significant increase in sales of epoxy wedge strip products to the PRC customers during the six months period ended 30 June 2020.

Sales to the U.S. market decreased by approximately 33.0% from approximately RMB9.5 million for the six months ended 30 June 2019 to approximately RMB6.4 million for the six months ended 30 June 2020, mainly because of the decrease in sales orders from the major customers in the U.S. market resulting from the outbreak of the COVID-19.

Sales to the U.K. market also decreased by approximately 31.3% from approximately RMB8.3 million for the six months ended 30 June 2019 to approximately RMB5.7 million for the six months ended 30 June 2020, mainly because of the decrease in sales orders from the major customers in the U.K. market resulting from the outbreak of the COVID-19.

Sales to the other locations decreased by approximately 7.2% from approximately RMB3.5 million for the six months ended 30 June 2019 to approximately RMB3.2 million for the six months ended 30 June 2020, mainly because of the decrease in sales orders from the customers in Belgium and South Africa resulting from the outbreak of the COVID-19.

Selling and distribution costs

The selling and distribution costs of the Group decreased by approximately RMB481,000, or 19.9% to approximately RMB1.9 million for the six months ended 30 June 2020 from approximately RMB2.4 million for the six months ended 30 June 2019. The decrease was mainly attributable to the decrease in export declaration and exhibition expenses.

Administrative expenses

The administrative expenses decreased by approximately RMB1.3 million, or 15.9% to approximately RMB7.0 million for the six months ended 30 June 2020 from approximately RMB8.3 million for the six months ended 30 June 2019. The decrease was mainly attributable to the decrease in research and development expenses.

Finance costs

Finance costs decreased by approximately RMB322,000 to approximately RMB126,000 for the six months ended 30 June 2020 from approximately RMB448,000 for the six months ended 30 June 2019, which was mainly due to the partial repayment of bank loan.

Operating results

Profit before taxation increased by 19.6% from approximately RMB4.1 million for the six months ended 30 June 2019 to approximately RMB4.9 million for the six months ended 30 June 2020. It was mainly due to the conscientious effort of the management to control the costs of operations leading to the reduction in both the selling and distribution costs and the administrative expenses.

Liquidity and financial resources

As at 30 June 2020, the Group held total assets of approximately RMB74.1 million (31 December 2019: approximately RMB81.6 million), including cash and cash equivalents of approximately RMB8.2 million (31 December 2019: approximately RMB19.5 million).

As at 30 June 2020, the Group had total liabilities of approximately RMB17.8 million (31 December 2019: approximately RMB28.4 million) which mainly comprise of bank borrowings amounting to RMB5 million (31 December 2019: RMB5 million) and trade and other payables of approximately RMB5.1 million (31 December 2019: approximately RMB16.5 million).

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 not quite meaningful as the Group had a significant amount of cash and cash equivalents to cover more than its bank borrowings as at 30 June 2020 and 31 December 2019.

Capital structure

As at 30 June 2020, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (31 December 2019: RMB3,600,000) and RMB56,264,000 (31 December 2019: RMB53,141,000) respectively.

Cash flows

The Group reported net cash outflow from operating activities of approximately RMB11.0 million for the six months ended 30 June 2020 as compared to the net cash inflow of approximately RMB5.6 million from operating activities for the six months ended 30 June 2019. The turnaround from cash inflow to cash outflow was mainly attributable to the decrease in working capital during the six months ended 30 June 2020.

Net cash used in investing activities was approximately RMB131,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB4.1 million generated from investing activities). The change from net cash inflow to net cash outflow 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 RMB127,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB450,000). The decrease in net cash used in financing activities was mainly due to decrease in interest payment during the six months ended 30 June 2020 compared to that of the corresponding six months in 2019.

Contingent liabilities

As at 30 June 2020, the Group had no contingent liabilities (31 December 2019: 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 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 so that appropriate actions could be carried out in a timely manner to address any foreign exchange risks;

- (iv) if the fluctuation in the relevant exchange rates exceeds 8.0% for more than two months, the pricing policy would be adjusted accordingly to reflect such change; and
- (v) the Directors would regularly review the analysis prepared by the accounting and finance department and assess whether there is any material and adverse impact on the Group's financial performance and whether any hedging or derivative financial instruments should be entered into for managing the foreign exchange risk exposures.

In addition to the above, the Group is generally able to pass on the cost arising from 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 2020, the Group had the following charges on its assets:

- (i) the right-of-use asset with a carrying value of RMB1,380,000 as at 30 June 2020 (31 December 2019: RMB1,398,000) and the building with a carrying value of RMB9,530,000 as at 30 June 2020 (31 December 2019: RMB9,171,000) were pledged for bank borrowings of RMB5,000,000 (31 December 2019: RMB5,000,000);
- (ii) bills receivables of RMB500,000 (31 December 2019: nil) 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 material acquisition and disposal of subsidiaries, associates and joint ventures by the Group during the six months ended 30 June 2020.

Employees, Remuneration policies

As at 30 June 2020, the Group had 121 employees (31 December 2019: 143). The total staff costs including Directors' remuneration for the six months ended 30 June 2020 were approximately RMB6.0 million (six months ended 30 June 2019: approximately RMB6.0 million). Remuneration is determined based on each employee's qualifications, position and seniority. In addition to a basic salary, year-end discretionary bonuses were offered with reference to our Group's performance as well as individual's performance to attract and retain appropriate and suitable personnel to serve the Group. Furthermore, the Group offers other staff benefits like provision of retirement benefits, various types of trainings and sponsorship of training courses. The Group also adopts an annual review system to assess the performance of staff, which forms the basis of decisions with respect to salary rises and promotions.

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 2020, 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) (the “**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), or pursuant to section 352 of the SFO to be entered in the register referred to therein, or otherwise pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors and to be notified to the Company and the Stock Exchange were as follows:

(i) Long position in the Shares

Name	Capacity/Nature of interest	Number of Shares held/interested in	Percentage of interest in the Company
Mr. Jiang Guitang (“ Mr. Jiang ”) (Notes 1 and 2)	Interest held jointly with other persons; interest in a controlled corporation	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**”), which in turn beneficially owns 163,600,000 Shares (representing 40.9% of the total number of issued Shares). 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 Buybacks (the “**Takeovers Code**”)) 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 share capital of the Company as at 30 June 2020.

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

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

Save as disclosed above, as at 30 June 2020, 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) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or 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 OR UNDERLYING SHARES OF THE COMPANY

As at 30 June 2020, 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	163,600,000	40.9%
Munsing (Notes 1 and 2)	Interest held jointly with other persons	163,600,000	40.9%
Singa (Notes 2 and 5)	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	103,620,000	25.9%

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 Takeovers Code) 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 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.
5. On 3 January 2020, Singa (as vendor) entered into a share transfer agreement with Yunhong Group Co., Limited (“**Yunhong**”) (as purchaser) to sell 40,000,000 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 (as selling shareholder) and Yunhong (as potential purchaser) entered into a memorandum of agreement (as supplemented by the supplemental agreements dated 22 January 2020, 14 April 2020 and 30 June 2020 respectively) 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 Takeovers Code 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. Details about the Disposal and the Possible Transaction are set out in the announcements of the Company dated 3 January 2020, 8 January 2020, 22 January 2020, 6 February 2020, 4 March 2020, 3 April 2020, 14 April 2020, 14 May 2020, 12 June 2020, 2 July 2020 and 3 August 2020.

Save as disclosed above, as at 30 June 2020, 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 or which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the six months ended 30 June 2020, 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 2020, 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 2020 and up to the date of this announcement.

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 have complied with such code of conduct and the required standard of dealings in the six months ended 30 June 2020.

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 during the six months ended 30 June 2020.

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 2020 have been reviewed by the audit committee.

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

Hong Kong, 10 August 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 Listed Company Information" page for 7 days from the date of its posting and on the website of the Company at www.nantongrate.com