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 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 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 the 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 audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2020 ("**2020 Financial Results**"), together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**2020** *RMB'000*	2019 *RMB'000*
Revenue	4	**97,608**	80,269
Cost of sales		**(65,121)**	(49,180)
Gross profit		**32,487**	31,089
Other revenue	5	**274**	271
Other net (loss)/gain	5	**(1,182)**	310
Impairment loss on contract assets, and trade and bills receivables	11(b)	**(1,426)**	(1,052)
Distribution costs		**(4,166)**	(5,012)
Administrative expenses		**(15,925)**	(17,745)
Profit from operations		**10,062**	7,861
Finance costs	7(a)	**(306)**	(645)
Profit before taxation	7	**9,756**	7,216
Income tax	8(a)	**(4,207)**	(3,742)
Profit for the year		**5,549**	3,474
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**5,549**	3,474
		RMB cents	*RMB cents*
Earnings per share			
Basic and diluted	9	**1.39**	0.87

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	**2020**	2019
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**13,859**	16,306
Right-of-use asset		**1,360**	1,398
Deferred tax assets		**1,107**	793
		16,326	18,497
Current assets			
Inventories		**8,173**	5,946
Property held for sale		**1,468**	1,468
Contract assets	10(a)	**1,377**	650
Trade and other receivables	11	**49,753**	34,282
Pledged bank deposits		**4,000**	1,200
Cash and cash equivalents		**16,545**	19,512
		81,316	63,058
Current liabilities			
Trade and other payables	12	**25,890**	16,540
Contract liabilities	10(b)	**–**	61
Bank borrowings	13	**5,000**	5,000
Income tax payable		**2,818**	2,805
		33,708	24,406
Net current assets		**47,608**	38,652
Total assets less current liabilities		**63,934**	57,149
Non-current liabilities			
Deferred tax liabilities		**4,844**	4,008
NET ASSETS		**59,090**	53,141
CAPITAL AND RESERVES			
Share capital		**3,600**	3,600
Reserves		**55,490**	49,541
TOTAL EQUITY		**59,090**	53,141

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

		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*
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
At 1 January 2020	**3,600**	**20,900**	**9,557**	**1,533**	**5,327**	**12,224**	**49,541**	**53,141**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**5,549**	**5,549**	**5,549**
Equity-settled share-based payments	**–**	**–**	**–**	**400**	**–**	**–**	**400**	**400**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**1,080**	**(1,080)**	**–**	**–**
At 31 December 2020	**3,600**	**20,900**	**9,557**	**1,933**	**6,407**	**16,693**	**55,490**	**59,090**

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 Windward 3, Regatta Office Park, PO 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 PREPRATION

(a) Statement of compliance

The 2020 Financial Results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), the collective term of which include 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 and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The 2020 Financial Results also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (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 2020 Financial Results.

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

(b) Basis of preparation of the 2020 Financial Results

The 2020 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 2020 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 2020 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 2020 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 on-going 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

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the 2020 Financial Results:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year 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 2020 Financial Results.

3. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of the 2020 Financial Results, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2020 and which have not been adopted in the 2020 Financial Results. These developments include the following which may be relevant to the Group.

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

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 Group's financial position and performance and/or on the disclosures set out.

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.

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of fiberglass reinforced plastic products		
– fiberglass reinforced plastic grating	**45,562**	52,982
– phenolic grating	**250**	2,094
– epoxy wedge strip	**51,796**	25,193
	97,608	80,269
Timing of revenue recognition		
At a point in time	**97,608**	80,269

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

5. OTHER REVENUE AND OTHER NET (LOSS)/GAIN

	2020	2019
	RMB'000	*RMB'000*
Other revenue		
Interest income on bank deposits	**28**	50
Interest income on financial assets at fair value through other comprehensive income	**–**	11
Total interest income on financial assets not at fair value through profit or loss	**28**	61
Government grants and other subsidies	**238**	187
Others	**8**	23
	274	271
Other net (loss)/gain		
Net foreign exchange (loss)/gain	**(1,182)**	310

6. SEGMENT REPORTING

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

(a) Geographic information

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

	2020	2019
	RMB'000	*RMB'000*
Local customers		
The PRC (excluding Hong Kong) (place of domicile)	**64,434**	41,472
Foreign customers		
The United States of America	**14,968**	17,994
The United Kingdom	**11,661**	13,889
Belgium	**1,965**	3,661
France	**356**	1,184
Canada	**393**	473
Germany	**141**	361
Hong Kong	**173**	355
Denmark	**2,583**	329
South Korea	**10**	–
Uruguay	**–**	9
Others	**924**	542
	33,174	38,797
	97,608	80,269

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

(b) Information about major customers

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

	2020	2019
	RMB'000	*RMB'000*
Customer A	**30,357**	10,746
Customer B *(note)*	**N/A**	10,006

Note: Revenue from customer B did not contribute 10% or more of the total revenue of the Group during the year ended 31 December 2020.

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following:

		2020 *RMB'000*	2019 *RMB'000*
(a)	**Finance costs**		
	Interest on bank borrowings	**306**	645
(b)	**Staff costs (including directors' emoluments)**		
	Salaries, wages and other benefits	**12,484**	12,855
	Contributions to defined contribution retirement plans	**506**	1,124
	Equity-settled share-based payments	**400**	400
		13,390	14,379
(c)	**Other items**		
	Amortisation for a right-of-use asset	**38**	38
	Impairment loss on contract assets, and trade and bills receivables:		
	– contract assets	**41**	–
	– trade and bills receivables	**1,385**	1,052
		1,426	1,052
	Depreciation of property, plant and equipment	**2,723**	2,380
	Write-down of inventories	**16**	827
	Cost of inventories recognised as expense *(note (i))*	**66,609**	53,694
	Auditor's remuneration:		
	– auditor of the Company	**758**	787
	– other auditors *(note (ii))*	**59**	28
	Research and development costs *(note (iii))*	**6,000**	7,780

Notes:

(i) Cost of inventories recognised as expenses include RMB5,522,000 (2019: RMB5,822,000) relating to staff costs, RMB1,517,000 (2019: RMB1,699,000) relating to depreciation of property, plant and equipment, RMB4,360,000 (2019: RMB5,782,000) relating to research and development cost and RMB16,000 (2019: RMB827,000) relating to write-down of inventories, for the year ended 31 December 2020, 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 costs of RMB1,453,000 (2019: RMB1,306,000) and costs of materials consumed of RMB4,360,000 (2019: RMB5,782,000), 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:

	2020	2019
	RMB'000	*RMB'000*
Current tax		
The PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary		
– current year	**3,640**	3,277
– under-provision in prior years	**45**	67
	3,685	3,344
Deferred tax		
Origination and reversal of temporary differences in respect of		
– provision for impairment losses on contract assets, trade and bills receivables	**(311)**	(237)
– write-down of inventories	**(3)**	(206)
– withholding tax on distributable profits of the Group's PRC subsidiary	**836**	841
	522	398
	4,207	3,742

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 2020 and 2019, 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% (2019: 25%). Dividends declared to Prosperous Composite Material Co., Ltd., as a non-resident shareholder, in respect of profits earned by Nantong Meigu, is subject to the PRC withholding tax at 10%.

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

	2020	2019
	RMB'000	*RMB'000*
Profit before taxation	**9,756**	7,216
Notional tax on profit before taxation attributable to the subsidiaries under the tax jurisdiction of the PRC calculated at 25%	**3,044**	2,787
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%	**(587)**	(649)
Under-provision in prior years	**45**	67
Tax effect of non-deductible expenses	**1,183**	1,139
Tax effect of temporary difference	**(314)**	(443)
Deferred tax provided for the PRC withholding tax on distributable profits of the Group's PRC subsidiary	**836**	841
Actual tax expense	**4,207**	3,742

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for each of the years ended 31 December 2020 and 2019 has been based on the following data:

	2020	2019
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share		
Profit for the year attributable to the owners of the Company	**5,549**	3,474
	'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 2020 amounted to RMB1.39 cent (2019: RMB0.87 cent) per share.

No diluted earnings per share was presented as there was no potential ordinary shares outstanding during the years ended 31 December 2020 and 2019.

10. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2020	2019
	RMB'000	*RMB'000*
Contract assets		
Retention monies receivables *(note (i))*	**1,418**	650
Less: allowance for lifetime expected credit losses *(note (ii))*	**(41)**	–
	1,377	650
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" *(note 11)*	**46,028**	31,917

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 2020 and 2019, included in contract assets were retention monies receivable from the contract customers amounting to RMB1,418,000 and RMB650,000 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 of the Company, the retention monies retained by the contract customers under the contracts are not intended as a financing arrangement by the Group to the contract customers.

(ii) Impairment assessment of the contract assets

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

At 31 December 2020, impairment loss of RMB41,000 (2019: Nil) was made on contract assets.

(b) Contract liabilities

	2020	2019
	RMB'000	*RMB'000*
Contract liabilities		
Sales deposits received	**–**	61

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

	2020	2019
	RMB'000	*RMB'000*
Balance at 1 January	**61**	93
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	**(61)**	(93)
Increase in contract liabilities as a result of receiving sales deposits during the year	**–**	61
Balance at 31 December	**–**	61

11. TRADE AND OTHER RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**48,322**	33,011
Less: allowance for lifetime expected credit losses	**(3,425)**	(2,349)
	44,897	30,662
Bills receivables	**1,165**	1,255
Less: allowance for lifetime expected credit losses	**(34)**	–
	1,131	1,255
Trade and bills receivables, net *(notes (a) and (b))*	**46,028**	31,917
Other receivables	**897**	865
Financial assets measured at amortised cost	**46,925**	32,782
Prepayments	**2,828**	1,500
	49,753	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 repayable on demand.

The Group determines the provision for impairment of trade and bills receivables on a forward looking basis and lifetime expected credit 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. There was no significant change in credit risk of the other receivables and the default risk was considered as low. Accordingly, no provision for 12 month credit losses on the other receivables was made (2019: Nil)

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 bad debt 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 lifetime expected credit losses), based on the invoice date, is as follows:

	2020	2019
	RMB'000	*RMB'000*
0 – 30 days	**12,780**	11,660
31 – 90 days	**21,640**	11,624
91 – 180 days	**8,828**	3,428
181 – 365 days	**2,420**	4,285
Over 365 days	**360**	920
	46,028	31,917

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

(b) Impairment of contract assets, and trade and bills receivables

Impairment loss in respect of contract assets, and 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 contract assets, and trade and bills receivables directly.

Allowance for lifetime expected credit losses at the end of the reporting period

	2020	2019
	RMB'000	*RMB'000*
– Trade receivables	**3,425**	2,349
– Bills receivables	**34**	–
– Contract assets *(note 10(a))*	**41**	–
	3,500	2,349

Movements in the allowance for lifetime expected credit losses

	2020	2019
	RMB'000	*RMB'000*
At 1 January	**2,349**	1,396
Impairment loss recognised *(note 7(c))*	**1,426**	1,052
Bad debt written off	**(275)**	(99)
At 31 December	**3,500**	2,349

As at 31 December 2020, contract assets, and trade and bills receivables amounting to RMB3,500,000 (2019: RMB2,349,000) were determined to be impaired according to the lifetime expected credit loss rates and adjusted for forward-looking estimates. Accordingly, allowance for lifetime expected credit losses of RMB1,426,000 (2019: RMB1,052,000) was recognised for the year ended 31 December 2020.

12. TRADE AND OTHER PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**11,600**	9,213
Bills payables	**4,000**	1,100
Trade and bills payables	**15,600**	10,313
Amount due to a shareholder *(Note (b))*	**4,702**	–
Other payables	**5,588**	6,227
	25,890	16,540

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

	2020	2019
	RMB'000	*RMB'000*
0 – 30 days	**3,882**	3,697
31 – 90 days	**5,613**	4,331
91 – 180 days	**5,443**	1,276
Over 180 days	**662**	1,009
	15,600	10,313

(b) Amount due to a shareholder

	2020	2019
	RMB'000	*RMB'000*
Amount due to Singa Dragon International Ventures Limited	**4,702**	–

The amount due to the shareholder was unsecured, interest-free and had no fixed repayment term.

13. BANK BORROWINGS

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

	2020	2019
	RMB'000	*RMB'000*
Fixed rate term loans from banks due for repayment within 1 year or repayable on demand		
Secured bank borrowings *(note below)*	**5,000**	5,000

Note: As at 31 December 2020, the bank borrowings were secured by buildings with the carrying amount of RMB8,454,000 as at 31 December 2020 (2019: RMB9,171,000) and a right-of-use asset with the carrying amount of RMB1,360,000 as at 31 December 2020 (2019: RMB1,398,000) 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 and certain of the highest paid employees and senior management, is as follows:

	2020	2019
	RMB'000	*RMB'000*
Short-term employee benefits	**2,613**	2,427
Post-employment benefits	**12**	141
Equity-settled share-based payments	**400**	400
	3,025	2,968

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; and (iii) epoxy wedge strip 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 steady pace in the coming years in the light of gradual maturity and better understanding of the FRP market.

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 2020, the Group spent approximately RMB6.0 million (2019: approximately RMB7.8 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 of the Company. 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 2021.

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 in countries along the "Belt and Road Initiatives". With all these efforts, the Group is hopeful that performance of the Group's FRP products would be further enhanced in the coming years.

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 2020, the Group undertook the following marketing activities:

i. 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;

ii. identification of suitable tender invitation mainly by online advertisements and industry periodicals; and

iii. contacting 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 2020, 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 2020, 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. Detailed measures on minimizing any negative impact on the environment and occupational health and safety are set out in the environment, social and governance report included in the 2020 annual report.

With the extensive experience and market recognition of products which the Group has accumulated since more than a decade ago, as well as the expanding customer base, the Board is of the view that the Group is more well-positioned than other domestic enterprises in the industry to further develop and expand its markets and products so as to capture the moderate growth of the FRP grating products market going forward.

SALES PERFORMANCE

The Group posted a consolidated revenue of approximately RMB97.6 million for the year ended 31 December 2020, representing an increase of approximately RMB17.3 million or 21.6% as compared to the corresponding year in 2019. The increase in revenue was primarily driven by the increase in sales revenue generated from epoxy wedge strip products, which was mitigated by the decrease in sales of FRP grating products and USCG approved phenolic grating products. Moreover, sales for the domestic market increased by approximately 55.4% to approximately RMB64.4 million for the year ended 31 December 2020 from approximately RMB41.5 million for the same corresponding year in 2019. The domestic market contributed approximately 66.0% of total sales for the year ended 31 December 2020, which increased by 14.3 percentage points in comparison with that of approximately 51.7% for the year ended 31 December 2019.

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

	For the year ended 31 December			
	2020		2019	
	Sales revenue *RMB'000*	**Gross profit margin** *%*	Sales revenue *RMB'000*	Gross profit margin *%*
FRP grating products	**45,562**	**33.8**	52,982	31.4
USCG approved phenolic grating products	**250**	**41.7**	2,094	47.9
Epoxy wedge strip products	**51,796**	**32.8**	25,193	53.5
	97,608	**33.3**	80,269	38.7

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 buy the products on per purchase order basis with no distribution arrangement. The revenue derived from sales of FRP grating products decreased by approximately RMB7.4 million or 14.0% from approximately RMB52.9 million for the year ended 31 December 2019 to approximately RMB45.6 million for the year ended 31 December 2020. This was mainly due to the decrease in sales in the U.S. and U.K. markets. The gross profit margin increased slightly by 2.4 percentage points from 31.4% for the year ended 31 December 2019 to 33.8% for the year ended 31 December 2020, which was mainly due to the reduction 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 drastically by approximately 88.1% from approximately RMB2.1 million for the year ended 31 December 2019 to approximately RMB250,000 for the year ended 31 December 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 6.2 percentage points from 47.9% for the year ended 31 December 2019 to 41.7% for the year ended 31 December 2020. This was mainly due to the inflexibility for the reduction in the fixed costs of production resulting from substantial decrease in the production volume during the year ended 31 December 2020.

During the year ended 31 December 2020, sales of epoxy wedge strip products became the largest contributor to the Group's revenue and accounted for approximately 53.1% 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 wedge strip products increased by approximately RMB26.6 million or 105.6% from approximately RMB25.2 million for the year ended 31 December 2019 to approximately RMB51.8 million for the year ended 31 December 2020. This was mainly due to the expansion of customer base through bringing in new customers and the resumption of confidence from the existing customers on the wind turbine manufacturing industry. The gross profit margin decreased by approximately 20.7 percentage points from approximately 53.5% for the year ended 31 December 2019 to approximately 32.8% for the year ended 31 December 2020. The decrease in gross profit margin can be explained by the increase in cost of production resulting from changes in demands from customers.

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

	For the year ended 31 December			
	2020		2019	
	Average selling price per unit	**Volume**	Average selling price per unit	Volume
	RMB		*RMB*	
FRP grating products	**288.4**	**158,003 m²**	272.4	194,479 m²
USCG approved phenolic grating products	**588.2**	**425 m²**	663.3	3,157 m²
Epoxy wedge strip products	**69.3**	**747,659 m**	64.5	390,552 m

The average selling price of the FRP grating products per m^2 increased by approximately RMB16.0 per m^2 or approximately 5.9% from RMB272.4 per m^2 for the year ended 31 December 2019 to RMB288.4 per m^2 for the year ended 31 December 2020, with a decrease in sales volume of approximately 18.8% 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 USCG approved phenolic grating products per m^2 decreased by approximately 11.3% from RMB663.3 per m^2 for the year ended 31 December 2019 to RMB588.2 per m^2 for the year ended 31 December 2020, with a decrease in sales volume of approximately 86.5% in comparison between the two years. 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 increased by approximately RMB4.8 per m from RMB64.5 per m for the year ended 31 December 2019 to RMB69.3 per m for the year ended 31 December 2020, with an increase in sales volume of approximately 91.4% 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	
	2020	2019
	RMB'000	*RMB'000*
PRC	**64,434**	41,472
U.S.	**14,968**	17,994
U.K.	**11,661**	13,889
Others	**6,545**	6,914
Total	**97,608**	80,269

Sales to the PRC market increased by approximately 55.4% from approximately RMB41.5 million for the year ended 31 December 2019 to approximately RMB64.4 million for the year ended 31 December 2020, which was mainly attributable to the significant increase in sales of epoxy wedge strip products to the PRC customers during the year ended 31 December 2020.

Sales to the U.S. market decreased by approximately 16.8% from approximately RMB18.0 million for the year ended 31 December 2019 to approximately RMB15.0 million for the year ended 31 December 2020, mainly because of the higher import tariff and the outbreak of the COVID-19 which suppressed the demands for the Group's products in the U.S. market.

Sales to the U.K. market decreased by approximately 16.0% from approximately RMB13.9 million for the year ended 31 December 2019 to approximately RMB11.7 million for the year ended 31 December 2020, mainly because of the decrease in sales orders from the major customers in the U.K. market resulting from the outbreak of COVID-19.

Sales to the other locations decreased by approximately 5.3% from approximately RMB6.9 million for the year ended 31 December 2019 to approximately RMB6.5 million for the year ended 31 December 2020, mainly because of the decrease in sales order from the customers in Belgium, France and South Africa resulting from the outbreak of the COVID-19.

OPERATING COSTS AND EXPENSES

Distribution costs decreased by approximately RMB0.8 million or 16.9% to approximately RMB4.2 million in the year ended 31 December 2020 from approximately RMB5.0 million in the year ended 31 December 2019. The decrease was mainly attributable to the decrease in customs declaration fee and exhibition expense.

Administrative expenses decreased by approximately RMB1.8 million, a 10.3% reduction to approximately RMB15.9 million in the year ended 31 December 2020 from approximately RMB17.8 million in the year ended 31 December 2019. The decrease was mainly attributable to the decrease in research and development expense.

Finance costs decreased by approximately RMB0.3 million to approximately RMB0.3 million for the year ended 31 December 2020 from approximately RMB0.6 million in the year ended 31 December 2019. The decrease was mainly due to the repayment of bank loan in the year ended 31 December 2019.

OPERATING RESULTS

There was a substantial increase of approximately 59.7% in profit for the year from approximately RMB3.5 million for the year ended 31 December 2019 to that of approximately RMB5.5 million for the year ended 31 December 2020. This substantial increase in net profit for the year ended 31 December 2020 was mainly attributable to: (i) the surge of sales revenue generated by sales of epoxy wedge strip products; and (ii) the conscientious effort taken by the management of the Group in controlling the operating expenses amidst an unstable economic environment caused by the widespread COVID-19 pandemic.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group held total assets of approximately RMB97.6 million (2019: approximately RMB81.6 million), including cash and cash equivalents of approximately RMB16.5 million (2019: approximately RMB19.5 million).

As at 31 December 2020, the Group had total liabilities of approximately RMB38.6 million (2019: RMB28.4 million) which comprise trade and other payables of approximately RMB25.9 million (2019: RMB16.5 million) and bank borrowings of RMB5 million (2019: RMB5 million).

As at 31 December 2020, the gearing ratio, expressed as a percentage of total loans and borrowings over total equity, was approximately 16.4% (31 December 2019: approximately 9.4%). This increase in gearing ratio was attributable to the borrowings obtained from a shareholder during the year ended 31 December 2020.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no contingent liabilities (31 December 2019: 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 2020, the Group had the following charges on its assets:

(i) the right-of-use asset with a carrying value of RMB1,360,000 as at 31 December 2020 (2019: RMB1,398,000) and the buildings with a carrying value of RMB8,454,000 as at 31 December 2020 (2019: RMB9,171,000) were pledged for bank borrowings of RMB5,000,000 (2019: RMB5,000,000);

(ii) an aggregate amount of RMB4,000,000 (2019: RMB1,200,000) was placed in a bank account and pledged in favour of banks for bill issuance.

CAPITAL STRUCTURE

As at 31 December 2020, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (2019: RMB3,600,000) and RMB59,090,000 (2019: RMB53,141,000) respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 133 employees (2019: 143). The total staff costs including Directors' remuneration for the year were approximately HK$13.4 million (2019: approximately RMB14.4 million). Remuneration is determined based on each employee's qualifications, position and seniority. In addition to a basic salary, year-end discretionary bonuses were offered with reference to the Group's performance as well as individual's performance to attract and retain appropriate and suitable personnel to serve the Group. Furthermore, the Group offers other staff benefits like provision of retirement benefits, various types of trainings and sponsorship of training courses. The Group also adopts an annual review system to assess the performance of staff, which forms the basis of decisions with respect to salary rises and promotions.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

There were no significant investments held, acquisitions or disposals of subsidiaries, associated companies and joint ventures by the Group during the year ended 31 December 2020

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associated companies and joint ventures as at 31 December 2020.

CORPORATE GOVERNANCE PRACTICES

Throughout the financial year ended 31 December 2020, the Company has complied with the provisions of the Code on Corporate Governance Practices 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 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. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the code of conduct regarding the dealings in securities of the Company during the year ended 31 December 2020.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") on 16 December 2016 in accordance with the requirements of the GEM Listing Rules. The Audit Committee currently comprises of all three independent non-executive Directors, Mr. Ng Sai Leung, as the chairman, Mr. Tam Tak Kei Raymond and Mr. Huang Xin as the members. The Audit Committee examined the accounting principles and practices adopted by the Group and discussed with the management its internal controls. The Audit Committee has reviewed the 2020 Financial Results.

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

Hong Kong, 19 March 2021

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 Announcements" page for 7 days from the date of its posting and on the website of the Company at www.nantongrate.com