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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 2021

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

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

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

*This announcement, for which the board (the “**Board**”) of directors (the “**Directors**”) of MEIGU Technology Holding Group Limited (the “**Company**”) collectively and individually accepts full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“**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 announces the unaudited results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2021, together with comparative figures for the same corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the three months ended		For the six months ended	
		30 June		30 June	
		2021	2020	2021	2020
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	3	21,196	23,977	34,819	37,008
Cost of sales		(15,792)	(15,592)	(26,260)	(23,703)
Gross profit		5,404	8,385	8,559	13,305
Other revenue	4	71	17	75	256
Other net (loss)/gain	4	(190)	325	(344)	406
Selling and distribution costs		(1,192)	(995)	(2,140)	(1,938)
Administrative expenses		(2,165)	(3,478)	(4,540)	(6,958)
Profit from operations		1,928	4,254	1,610	5,071
Finance costs	5 (a)	(63)	(63)	(126)	(126)
Profit before taxation	5	1,865	4,191	1,484	4,945
Income tax	6	(818)	(1,502)	(905)	(2,022)
Profit for the period attributable to owners of the Company		1,047	2,689	579	2,923
Other comprehensive income for the period		—	—	—	—
Total comprehensive income for the period attributable to owners of the Company		1,047	2,689	579	2,923
Earnings per share		RMB cent	RMB cent	RMB cent	RMB cent
Basic and diluted	8	0.26	0.67	0.14	0.73

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2021 <i>RMB'000</i> (Unaudited)	At 31 December 2020 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		13,664	13,859
Right-of-use asset		1,342	1,360
Deferred tax assets		1,107	1,107
		<u>16,113</u>	<u>16,326</u>
Current assets			
Inventories		13,724	8,173
Property held for sale		1,468	1,468
Contract assets		352	1,377
Trade and other receivables	9	51,227	49,753
Pledged bank deposits		–	4,000
Cash and cash equivalents		8,744	16,545
		<u>75,515</u>	<u>81,316</u>
Current liabilities			
Trade and other payables	10	18,851	25,890
Contract liabilities		118	–
Bank borrowings		5,000	5,000
Income tax payable		2,870	2,818
		<u>26,839</u>	<u>33,708</u>
Net current assets		<u>48,676</u>	<u>47,608</u>
Total assets less current liabilities		64,789	63,934
Non-current liabilities			
Deferred tax liabilities		5,053	4,844
NET ASSETS		<u>59,736</u>	<u>59,090</u>
CAPITAL AND RESERVES			
Share capital	11	3,600	3,600
Reserves		56,136	55,490
TOTAL EQUITY		<u>59,736</u>	<u>59,090</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reserves							Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital Reserve RMB'000	Share- based payment reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Sub- total RMB'000	
At 1 January 2020								
(Audited)	3,600	20,900	9,557	1,533	5,327	12,224	12,224	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>
At 1 January 2021								
(Audited)	3,600	20,900	9,557	1,933	6,407	16,693	55,490	59,090
Profit and total comprehensive income for the period	–	–	–	–	–	579	579	579
Equity-settled share-based payments	–	–	–	67	–	–	67	67
Transfer to retained profits	–	–	–	(2,000)	–	2,000	–	–
Transfer to statutory reserve	–	–	–	–	262	(262)	–	–
At 30 June 2021								
(Unaudited)	<u>3,600</u>	<u>20,900</u>	<u>9,557</u>	<u>–</u>	<u>6,669</u>	<u>19,010</u>	<u>56,136</u>	<u>59,736</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(6,972)	(11,026)
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(712)	(149)
Interest received	9	18
Net cash used in investing activities	(703)	(131)
Cash flows from financing activities		
Interest payments	(126)	(127)
Net cash used in financing activities	(126)	(127)
Net decrease in cash and cash equivalents	(7,801)	(11,284)
Cash and cash equivalents at beginning of period	16,545	19,512
Cash and cash equivalents at end of period	8,744	8,228

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL INFORMATION

MEIGU Technology Holding Group Limited was incorporated in the Cayman Islands on 13 January 2016 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares have been listed on the GEM of the Stock Exchange since 13 January 2017. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350 Grand Cayman KY1-1108, Cayman Islands and its principal place of business is 66 Oujiang Road, Haimen Economic Development Zone, Nantong City, the Jiangsu Province, the People's Republic of China (the "**PRC**").

The Company is an investment holding company and its subsidiaries are principally engaged in the research and development, production and sales of fibreglass reinforced plastic products in the PRC. During the reporting periods, the principal business was carried out through Nantong Meigu Composite Materials Company Limited ("**Nantong Meigu**"), which is an indirect wholly-owned subsidiary of the Company incorporated in the PRC.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's unaudited consolidated results for the six months ended 30 June 2021 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 2021 are consistent with those adopted in the financial statements of the Group for the year ended 31 December 2020.

The consolidated results of the Group for the six months ended 30 June 2021 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	
	2021	2020	2021	2020
Sales of fiberglass reinforced plastic (“FRP”) products	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
– FRP grating products	13,020	11,303	19,730	18,039
– Phenolic grating products	160	163	160	163
– Epoxy wedge strip products	8,016	12,511	14,929	18,806
	21,196	23,977	34,819	37,008

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 the reporting periods, all property, plant and equipment, and leasehold land were located in the PRC.

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

	For the three months ended 30 June		For the six months ended 30 June	
	2021	2020	2021	2020
	<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	5	9	9	18
Government grants	–	8	–	228
Sundries	66	–	66	10
	<u>71</u>	<u>17</u>	<u>75</u>	<u>256</u>
Other net (loss)/gain				
Net foreign exchange (loss) gain	(190)	325	(344)	406
	<u>(190)</u>	<u>325</u>	<u>(344)</u>	<u>406</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	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
(a) Finance costs				
Interest on bank borrowings	<u>63</u>	<u>63</u>	<u>126</u>	<u>126</u>
(b) Staff costs (including directors' emoluments)				
Salaries, wages and other benefits	2,845	3,489	5,513	5,508
Contributions to defined contribution retirement plans	299	116	531	244
Equity-settled share-based payments	<u>–</u>	<u>100</u>	<u>67</u>	<u>200</u>
	<u>3,144</u>	<u>3,705</u>	<u>6,111</u>	<u>5,952</u>
(c) Other items				
Amortisation for a right-of-use asset	10	10	19	19
Depreciation for property, plant and equipment	492	549	969	1,080
Cost of inventories recognised as expense (note (i))	15,391	16,054	25,921	24,792
Research and development costs (note (ii))	<u>572</u>	<u>1,487</u>	<u>1,472</u>	<u>2,804</u>

Notes:

- (i) Cost of inventories recognised as expense include RMB3,168,000 (six months ended 30 June 2020: RMB3,226,000) relating to staff costs, and RMB685,000 (six months ended 30 June 2020: 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 RMB782,000 (six months ended 30 June 2020: RMB660,000) and costs of materials consumed of RMB649,000 (six months ended 30 June 2020: RMB2,050,000), 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	
	2021	2020	2021	2020
	<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	629	1,155	696	1,555
Deferred tax				
Origination and reversal of temporary differences in respect of withholding tax on distributable profits of the Group’s PRC subsidiary	<u>189</u>	<u>347</u>	<u>209</u>	<u>467</u>
	<u>818</u>	<u>1,502</u>	<u>905</u>	<u>2,022</u>

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

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2021 and also the corresponding six months in 2020 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 2021 (six months ended 30 June 2020: 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	
	2021	2020	2021	2020
	<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>1,047</u>	<u>2,689</u>	<u>579</u>	<u>2,923</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 2021 amounted to 0.14 RMB cent (six months ended 30 June 2020: 0.73 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 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Trade receivables	38,251	48,322
Bills receivables	15,543	1,165
	53,794	49,487
Less: allowance for lifetime expected credit losses	(3,459)	(3,459)
Trade and bills receivables, net	50,335	46,028
Other receivables	853	897
Prepayments and deposits	39	2,828
	51,227	49,753

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 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
0 – 30 days	19,857	12,780
31 – 90 days	14,074	21,640
91 – 180 days	8,137	8,828
181 – 365 days	5,584	2,420
Over 365 days	2,683	360
	50,335	46,028

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 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Trade payables	8,962	11,600
Bills payables	—	4,000
Total trade and bills payables (note (a))	8,962	15,600
Amount due to the former shareholder (note (b))	5,879	4,702
Other payables	4,011	5,588
	<u>18,852</u>	<u>25,890</u>

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

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
0 – 30 days	3,758	3,882
31 – 90 days	3,210	5,613
91 – 180 days	1,007	5,443
181 – 365 days	811	662
Over 365 days	176	—
	<u>8,962</u>	<u>15,600</u>

(b) Amount due to the former shareholder

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Amount due to Singa Dragon International Ventures Limited	<u>5,879</u>	<u>4,702</u>

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

11. SHARE CAPITAL

	Number of shares		Nominal value	
	As at 30 June 2021 '000 (Unaudited)	As at 31 December 2020 '000 (Audited)	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 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. 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	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)	2021 RMB\$'000 (Unaudited)	2020 RMB\$'000 (Unaudited)
Short-term employee benefits	298	297	598	592
Post-employment benefits	19	11	59	31
Equity-settled share-based payments	<u>–</u>	<u>100</u>	<u>67</u>	<u>200</u>
	<u>317</u>	<u>408</u>	<u>724</u>	<u>823</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. During the six months ended 30 June 2021, the Group produced three major products: (i) FRP grating products; (ii) 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 future in light of gradual maturity and better understanding of the FRP market.

In the first half year of 2021, the gross domestic product (the “GDP”) of the PRC grew by 12.7% as compared to the corresponding period in 2020. Although this growth rate has slipped behind from that of 18.3% ever recorded in the first quarter of 2021, it is still considered as a remarkable growth rate reflecting a recovery from the dramatic impact of the coronavirus pandemic (“COVID-19”) in early 2020 and the continued momentum of the world’s second largest economy. It also marks a pleasing turnaround from the first half year of 2020 when the PRC economy suffered a dramatic collapse under pressure from the impact of COVID-19 which shrank the GDP by 1.6% in the first half year of 2020. Whilst the PRC’s economy marks a pleasing turnaround, COVID-19 is still far from under control in many overseas countries and the international landscape is complicated and severe. The foundation for domestic economic recovery is not yet solid, and some service industries, small and medium-sized enterprises are still facing more difficulties in their productions and operations.

In view of the uncertainty of the global economy ahead, the Group will continue to enhance product recognition by improving production technology in order to maintain effective cost control and strengthen the competitiveness. Meanwhile, the Group will recruit more talents to fulfill its development and expansion.

Sales performance

The Group posted a consolidated revenue of approximately RMB34.8 million for the six months ended 30 June 2021, representing a decrease of approximately RMB2.2 million or 5.9% as compared to the corresponding period in 2020. The decrease in revenue was primarily driven by the decrease in sales revenue generated from sales of epoxy wedge strip products, which was offset to a certain extent by the increase in sales of FRP grating products. Moreover, sales for the domestic market increased by approximately 4.1% to approximately RMB22.6 million for the six months ended 30 June 2021 from approximately RMB21.7 million for the same corresponding period in 2020. The domestic market contributed approximately 65.0% of total sales for the six months ended 30 June 2021, which has increased by 6.2 percentage points in comparison with that of approximately 58.8% for the six months ended 30 June 2020.

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

	For the six months ended 30 June 2021		For the six months ended 30 June 2020	
	Sales revenue RMB'000	Gross profit margin %	Sales revenue RMB'000	Gross profit Margin %
FRP grating products	19,730	30.6	18,039	32.3
Phenolic grating products	160	36.4	163	39.8
Epoxy wedge strip products	14,929	20.4	18,806	39.4
	34,819	24.6	37,008	36.0

During the six months ended 30 June 2021, sales of FRP grating products became the largest contributor to the Group's revenue and it accounted for approximately 56.7% of the total revenue of the Group. 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 increased by approximately RMB1.7 million or 9.4% from approximately RMB18.0 million for the six months ended 30 June 2020 to approximately RMB19.7 million for the six months ended 30 June 2021. This was mainly due to the successful procurement of two major projects during the six months ended 30 June 2021. The gross profit margin decreased by 1.7 percentage points from 32.3% for the six months ended 30 June 2020 to 30.6% for the six months ended 30 June 2021, which was mainly attributable to the increase in costs of raw materials amidst the rupture of the worldwide supply chain caused by the widespread of COVID-19.

Phenolic grating products were generally sold to shipbuilders and offshore oilfields construction companies in the PRC. Revenue generated from sales of phenolic grating products decreased slightly by approximately 1.8% from approximately RMB163,000 for the six months ended 30 June 2020 to approximately RMB160,000 for the six months ended 30 June 2021. The gross profit margin decreased by approximately 3.4 percentage points from approximately 39.8% for the six months ended 30 June 2020 to approximately 36.4% for the six months ended 30 June 2021. This was mainly due to the increase in costs of raw materials as mentioned above.

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 decreased by approximately RMB3.9 million or 20.6% from approximately RMB18.8 million for the six months ended 30 June 2020 to approximately RMB14.9 million for the six months ended 30 June 2021. This was mainly due to the sharp increase in costs of raw materials for certain downstream customers who were very conservative in placing orders. The gross profit margin dropped by 19 percentage points from 39.4% for the six months ended 30 June 2020 to 20.4% for the six months ended 30 June 2021. This decrease in gross profit margin was attributable to the increase in costs of raw materials as mentioned above and the relative increase in the fixed costs of production per unit resulting from the reduction in production volume.

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

	For the six months ended 30 June 2021		For the six months ended 30 June 2020	
	Average selling price per unit RMB'000	Volume	Average selling price per unit RMB'000	Volume
FRP grating products	262.4	75,196 m²	296.7	60,791 m ²
Phenolic grating products	519.5	308 m²	567.9	287m ²
Epoxy wedge strip products	60.7	245,852 m	66.7	281,836 m

The average selling price of the FRP grating products per m² dropped by approximately RMB34.3 per m² or approximately 11.6% from RMB296.7 per m² for the six months ended 30 June 2020 to RMB262.4 per m² for the six months ended 30 June 2021, with an increase in sales volume of approximately 23.7% in comparison between the two periods. The decrease in average selling price was mainly due to the variations in the composition of lower priced FRP grating products sold.

The average selling price of the Phenolic grating products per m² decreased by approximately 8.5% from RMB567.9 per m² for the six months ended 30 June 2020 to RMB519.5 per m² for the six months ended 30 June 2021, with an increase in sales volume of approximately 7.3% in comparison between the two periods. The decrease in average selling price was mainly due to the differences in product specifications in relation to different shapes, weight and dimension for the products sold in these two periods.

The average selling price of the epoxy wedge strip products per m decreased by approximately RMB6.0 per m from RMB66.7 per m for the six months ended 30 June 2020 to RMB60.7 per m for the six months ended 30 June 2021, with a reduction in sales volume of approximately 12.8% in comparison between the two periods. As the whole industry is suffering from the reduction in orders, our manufacturing plant has no other alternative but to follow our peer to cut down the selling prices of the epoxy wedge strip products.

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

	For the six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
PRC	22,634	21,749
U. S.	5,604	6,368
U. K.	4,023	5,686
Others	2,558	3,205
Total	<u>34,819</u>	<u>37,008</u>

Sales to the PRC market increased by approximately 4.1% from approximately RMB21.7 million for the six months ended 30 June 2020 to approximately RMB22.6 million for the six months ended 30 June 2021, which was mainly attributable to the recovery of the PRC economy resulting in the surge of the demand for the Group's products during the six months ended 30 June 2021.

Sales to the U.S. market decreased by approximately 12.0% from approximately RMB6.4 million for the six months ended 30 June 2020 to approximately RMB5.6 million for the six months ended 30 June 2021, mainly because of the higher import tariff and the adverse impact of the COVID-19 pandemic on the U.S. economy and market condition which suppressed the demands for the Group's products in the U.S. market.

Sales to the U.K. market also decreased by approximately 29.2% from approximately RMB5.7 million for the six months ended 30 June 2020 to approximately RMB4.0 million for the six months ended 30 June 2021, mainly because of the decrease in sales orders from the major customers in the U.K. market resulting from the adverse impact of COVID-19.

Sales to the other locations decreased by approximately 20.2% from approximately RMB3.2 million for the six months ended 30 June 2020 to approximately RMB2.5 million for the six months ended 30 June 2021, mainly because of the decrease in sales order from the customers in the Belgium and Canada resulting from the adverse impact of COVID-19.

Selling and distribution costs

The selling and distribution costs of the Group increased by approximately RMB202,000, or 10.4% to approximately RMB2.1 million for the six months ended 30 June 2021 from approximately RMB1.9 million for the six months ended 30 June 2020. The increase was mainly attributable to the increase in staff costs and marketing expenses.

Administrative expenses

The administrative expenses decreased by approximately RMB2.4 million, or 34.8% to approximately RMB4.5 million for the six months ended 30 June 2021 from approximately RMB7.0 million for the six months ended 30 June 2020. The decrease was mainly attributable to the decrease in research and development expenses, and printing expenses.

Operating results

Profit before taxation decreased by 70.0% from approximately RMB4.9 million for the six months ended 30 June 2020 to approximately RMB1.5 million for the six months ended 30 June 2021. The reduction in profit before taxation was primarily attributable to: (i) the reduction in the sales in overseas markets for the six months ended 30 June 2021 by approximately 20% as compared to that of approximately RMB15.3 million for the corresponding period in 2020 due to the higher import tariffs imposed by the U.S. government and the adverse impact of COVID-19, both of which suppressed the demands of the Group's products in the overseas markets; and (ii) the decrease in gross profit margin of approximately 11 percentage points for the products sold by the Group during the six months ended 30 June 2021, which was resulted from the drastic increase in the costs of raw materials amidst the rupture of the worldwide supply chain caused by the widespread of COVID-19.

Liquidity and financial resources

As at 30 June 2021, the Group held total assets of approximately RMB91.6 million (31 December 2020: approximately RMB97.6 million), including cash and cash equivalents of approximately RMB8.7 million (31 December 2020: approximately RMB16.5 million).

As at 30 June 2021, the Group had total liabilities of approximately RMB31.9 million (31 December 2020: approximately RMB38.6 million) which mainly comprise of bank borrowings amounting to RMB5 million (31 December 2020: RMB5 million) and trade and other payables of approximately RMB18.9 million (31 December 2020: approximately RMB25.9 million).

As at 30 June 2021, the gearing ratio, expressed as a percentage of total loans and borrowings over total equity, was approximately 18.2% (31 December 2020: approximately 16.4%). This increase in gearing ratio was attributable to the increase in the amount due to the former shareholder.

Capital structure

As at 30 June 2021, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (31 December 2020: RMB3,600,000) and RMB59,736,000 (31 December 2020: RMB59,090,000) respectively.

Cash flows

Net cash used in operating activities was approximately RMB7.0 million (six months ended 30 June 2020: approximately RMB11.0 million) for the six months ended 30 June 2021. The decrease in net cash used was resulted from decrease in working capital used in operating activities during the six months ended 30 June 2021.

Net cash used in investing activities was approximately RMB703,000 (six months ended 30 June 2020: approximately RMB131,000) for the six months ended 30 June 2021. The increase in net cash used was resulted from the increase in acquisition of property, plant and equipment during the six months ended 30 June 2021.

Net cash used in financing activities was approximately RMB126,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately RMB127,000). The amounts remained relatively stable in comparison between the two periods.

Contingent liabilities

As at 30 June 2021, the Group had no contingent liabilities (31 December 2020: 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 2021, the Group had the following charges on its assets:

- (i) the right-of-use asset with a carrying value of RMB1,341,000 as at 30 June 2021 (31 December 2020: RMB1,360,000) and the building with a carrying value of RMB8,096,000 as at 30 June 2021 (31 December 2020: RMB8,454,000) were pledged for a bank borrowing of RMB5,000,000 (31 December 2020: RMB5,000,000);
- (ii) there was no bank deposit (31 December 2020: RMB4,000,000) pledged in favour of banks for bill issuance.

Material acquisition and disposal

There was no acquisition and disposal of subsidiaries and associated company by the Group during the six months ended 30 June 2021.

Employees, remuneration policies

As at 30 June 2021, the Group had 116 employees (31 December 2020: 133). The total staff costs including Directors' remuneration for the six months ended 30 June 2021 were approximately RMB6.1 million (six months ended 30 June 2020: 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.

Change in shareholding structure

On 3 January 2020, Singa Dragon International Ventures Limited ("**Singa**") and Yunhong Group Co., Limited ("**Yunhong**") entered into a share transfer agreement, pursuant to which the Singa agreed to sell, and Yunhong agreed to purchase, 40,000,000 shares of the Company (representing 10.0% of the entire issued share capital of the Company at the date of this announcement) for a total consideration of HK\$6,400,000 at HK\$0.16 per share. Completion of the aforesaid share transfer agreement took place on 23 December 2020. Detailed information in relation to the said share transfer agreement was set out in the Company's announcements dated 3 January and 28 December 2020.

On 31 March 2021, LF INTERNATIONAL PTE. LTD. ("**LFB**") and Singa entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") pursuant to which, Singa agreed to sell, and LFB agreed to purchase 123,600,000 shares of the Company (representing 30.9% of the entire issued share capital of the Company at the date of this announcement) for a total consideration of HK\$24,720,000 at HK\$0.20 per share. Completion of the Sale and Purchase Agreement took place on 15 April 2021. Detailed information in relation to the Sale and Purchase Agreement was set out in the announcement dated 15 April 2021 jointly issued by LFB and the Company.

Given that Mr. Li Yubao (“**Mr. Li**”), is the ultimate controlling shareholder of both Yunhong and LFB, Mr. Li, Yunhong and LFB are presumed to be parties acting in concert under Class (8) of the definition of “Acting in concert” under The Codes on Takeovers and Mergers and Share Buy-backs (the “**Takeovers Code**”). Accordingly, immediately after completion of the Sale and Purchase Agreement, LFB and parties acting in concert with it are collectively interested in 163,600,000 shares of the Company (representing 40.9% of the entire issued share capital of the Company at the date of this announcement).

Pursuant to Rule 26.1 of the Takeovers Code, LFB is required to make a mandatory conditional cash offer (the “**Offer**”) for all the issued shares of the Company (other than those already owned by LFB and Yunhong), being 236,400,000 shares of the Company (representing 59.1% of the entire issued share capital of the Company at the date of this announcement). Detailed information in relation to the Offer was set out in the announcement dated 15 April 2021 and the composite document dated 21 May 2021 jointly issued by LFB and the Company.

The Offer was conditional only upon LFB having received valid acceptances together with the shares of the Company already owned by LFB and the parties acting in concert with it, would result in LFB and the parties in concern with it in aggregate holding more than 50% of the voting rights of the Company. At the close of the Offer, there were, however, valid acceptances in respect of 190,000 shares of the Company, representing 0.05% of the entire issued share capital of the Company at the date of this announcement. LFB and the Company, therefore, jointly announced that the Offer lapsed on 11 June 2021. Detailed information in relation the level of acceptance and the lapse of the Offer was set out in the announcement dated 11 June 2021 jointly issued by LFB and the Company.

Change of directors, chairman of the board, chief executive officer and composition of the board committees

On 30 June 2021, the Board announces the following changes in the composition of the Board with effect from 30 June 2021:

1. Mr. Jiang Guitang (姜桂堂) has resigned as an executive Director, the chief executive officer and a member of the remuneration committee of the Company (the “**Remuneration Committee**”);
2. Mr. Cheng Dong (成東) has resigned as an executive Director, the chairman of the Board and a member of each of the nomination committee (the “**Nomination Committee**”) and the risk management committee (the “**Risk Management Committee**”) of the Company; and
3. Mr. Huang Xin (黃昕) has resigned as an independent non-executive Director, the chairman of the Nomination Committee and a member of each of the Remuneration Committee and the audit committee of the Company (the “**Audit Committee**”).

4. Mr. Li Yubao (李玉保) has been appointed as an executive Director, the chairman of the Board and a member of the Risk Management Committee;
5. Ms. Zhang Yaping (張亞平) has been appointed as an executive Director, the chief executive officer and a member of each of the Remuneration Committee and the Nomination Committee; and
6. Mr. Lee Man Tai (李文泰) has been appointed as an independent non-executive Director, the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee.

Detailed information in relation to the above changes in the composition of the Board was set out in the Company's announcement dated 30 June 2021.

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 2021, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company (the “**Shares**”), underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)(“**SFO**”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO to be entered in the register referred to therein pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors and to be notified to the Company and the Stock Exchange were as follows:

Long position in the Shares

Name	Capacity/Nature of interest	Number of shares held/ interested in	Percentage of interest in the Company
Mr. Li (<i>Note</i>)	Interest in controlled corporations	163,600,000	40.9%

Note:

Mr. Li is the ultimate controlling shareholder of LFB and Yunhong, both of which in turn hold a total of 163,600,000 Shares. Therefore, Mr. Li is deemed, or taken to be, interested in all the Shares held by LFB and Yunhong for the purposes of the SFO.

Long position in the ordinary shares of associated corporation

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares held	Approximate percentage of interests
Mr. Li	LF INTERNATIONAL PTE. LTD. (“LFS”) (Note 1)	Beneficial Owner	100	100%
Mr. Li	LFB (Note 2)	Interest in controlled corporation	1	100%

Notes:

1. LFS is a limited liability company incorporated in Singapore.
2. LFB is wholly owned by LFS, which is in turn wholly owned by Mr. Li.

Save as disclosed above, as at 30 June 2021, none of the Directors and chief executive of the Company had any interests or short position in the Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO), as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8, 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, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2021, 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
LFS (<i>Note 1</i>)	Interest in a controlled corporation	123,600,000	30.9%
LFB (<i>Note 1</i>)	Beneficial owner	123,600,000	30.9%
Yunhong (<i>Note 2</i>)	Beneficial owner	40,000,000	10.0%
Mr. Wu Dong ("Mr. Wu") (<i>Note 2</i>)	Interest in a controlled corporation	40,000,000	10.0%
Mr. Huang Xuechao	Beneficial owner	98,620,000	24.7%

Notes:

1. LFB is wholly owned by LFS, which is in turn wholly owned by Mr. Li. Therefore, each of LFS and Mr. Li is deemed or taken to be interested in the Shares held by LFB for the purposes of the SFO.
2. Mr. Wu holds approximately 93.67% equity interest in Yunhong, which in turn beneficially owns 40,000,000 Shares (representing 10% of the total number of issued Shares). Therefore, Mr. Wu is deemed or taken to be interested in the Shares held by Yunhong for the purposes of the SFO. Among this 93.67% equity interest in Yunhong, 92% is held by Mr. Wu on behalf of Mr. Li pursuant to the nominee shareholding arrangements between Mr. Wu and Mr. Li. Hence, Mr. Li is regarded as the ultimate controlling shareholder of Yunhong and therefore Mr. Li is deemed or taken to be interested in the Shares held by Yunhong for the purpose of the SFO.

Save as disclosed above, as at 30 June 2021, 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 2021, 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 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 2021, 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. Li, LFS and LFB, 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 2021 and up to the date of this announcement.

EVENT AFTER THE REPORTING PERIOD

On 22 July 2021, the Company announced that the Board proposes to change the English name of the Company from "MEIGU Technology Holding Group Limited" to "Yunhong Guixin Group Holdings Limited" and the dual foreign name in Chinese of the Company from "美固科技控股集團有限公司" to "運鴻硅鑫集團控股有限公司" (the "**Proposed Change of Company Name**").

The Proposed Change of Company Name will be subject to the fulfillment of the following conditions:

- (i) the passing of a special resolution by the shareholders of the Company (the "**Shareholders**") to approve the Proposed Change of Company Name at an extraordinary general meeting of the Company to be convened; and

- (ii) the Registrar of Companies in the Cayman Islands approving the Proposed Change of Company Name by issuing a certificate of incorporation on change of name.

The Board believes that the new name of the Company will not only provide the Company with fresh corporate identity, but will also better reflect the relationship between the Company and its new controlling Shareholder, namely LFB. The Board considers that the Proposed Change of Company Name is in the best interests of the Company and the Shareholders as a whole.

Detailed information in relation to the Proposed Change of Company Name was set out in the Company's announcement and circular dated 22 July 2021 and 4 August 2021 respectively.

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 2021.

CORPORATE GOVERNANCE CODE

The Directors consider that the Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules in the six months ended 30 June 2021.

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. Lee Man Tai, 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 2021 have been reviewed by the audit committee.

By order of the Board
MEIGU Technology Holding Group Limited
Li Yubao
Chairman & Executive Director

Hong Kong, 10 August 2021

As at the date of this announcement, the executive Directors are Mr. Li Yubao, Ms. Zhang Yaping and Ms. Shi Dongying and the independent non-executive Directors are Mr. Lee Man Tai, 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