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 REPORT 2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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 report, for which the directors (the "Directors") of MEIGU Technology Holding Group Limited (the "Company") collectively and individually accept 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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Cheng Dong *(Chairman)*
Mr. Jiang Guitang *(Chief Executive Officer)*
Ms. Shi Dongying

Independent Non-executive Directors
Mr. Huang Xin
Mr. Tam Tak Kei Raymond
Mr. Ng Sai Leung

AUDIT COMMITTEE

Mr. Ng Sai Leung *(Chairman)*
Mr. Tam Tak Kei Raymond
Mr. Huang Xin

REMUNERATION COMMITTEE

Mr. Tam Tak Kei Raymond *(Chairman)*
Mr. Jiang Guitang
Mr. Huang Xin

NOMINATION COMMITTEE

Mr. Huang Xin *(Chairman)*
Mr. Cheng Dong
Mr. Ng Sai Leung

RISK MANAGEMENT COMMITTEE

Ms. Shi Dongying *(Chairman)*
Mr. Cheng Dong
Mr. Tam Tak Kei Raymond

AUTHORISED REPRESENTATIVES

Ms. Shi Dongying
Mr. Ng Chi Ho Dennis

COMPLIANCE OFFICER

Ms. Shi Dongying

COMPANY SECRETARY

Mr. Ng Chi Ho Dennis

COMPANY WEBSITE

www.nantonggrate.com

STOCK CODE

8349

PRINCIPAL BANKER

Wing Lung Bank Limited
G/F, Wing Lung Bank Building
45 Des Voeux Road
Central, Hong Kong

AUDITOR

Crowe Horwath (HK) CPA Limited
Certified Public Accountant
9/F Leighton Centre
77 Leighton Road
Causeway Bay, Hong Kong

REGISTERED OFFICE

PO Box 1350, Clifton House
75 Fort Street, Grand Cayman KY1-1108
Cayman Islands

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN THE PRC

66 South Oujiang Road
Haimen City Jiangsu Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1603, 16/F China Building
29 Queen's Road Central
Central, Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Cayman Islands Principal Share Registrar and Transfer Office
Estera Trust (Cayman) Limited
P.O. Box 1350, Clifton House
75 Fort Street, Grand Cayman KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office
Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Chairman’s Statement

On behalf of the board of Directors (the “Board”) of the Company, it is my pleasure to present the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016.

LISTING

On 13 January 2017, the shares of the Company (the “Shares”) were successfully listed (the “Listing”) on the GEM of the Stock Exchange which marked a significant milestone for the Group. In addition, the net proceeds amounting to approximately HK$16.5 million from placing of 100,000,000 Shares will be applied in the enhancement of the existing production process and purchase of new production equipment, further development of new products and upgrade of research capabilities. At the same time, this additional financing channel will provide strong financial support to the sustainable development of the Group.

REVIEW

The overall fibreglass reinforced plastic (“FRP”) market in China grew at a compound annual growth rate (“CAGR”) of 9.0% from RMB79.7 billion in 2010 to RMB122.6 billion in 2015. 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, it is expected that the overall FRP market in China will grow at a CAGR of 6.7% between 2015 and 2019.

In 2016, the Group continued to consolidate the market position in China and the rest of the world, in particular, United States Coast Guard (“USCG”) Approved Phenolic Grating products and Epoxy Wedge Strip products. As the Group successfully pursued a number of market opportunities, enhanced marketing efforts and research capabilities, and put more efforts in product quality management, the turnover of the Group grew to approximately RMB63.3 million in 2016, representing an increase of 12.2% as compared with that of 2015.

Attributed to the listing expenses of approximately RMB14.4 million (2015: RMB0.6 million) charged in the profit or loss account of the Group for the year ended 31 December 2016, the Group incurred a net loss of approximately RMB7.7 million for the year ended 31 December 2016. In fact, excluding these one-off expenses, the Group would have generated a net profit of RMB6.7 million for the year ended 31 December 2016 as compared to the net profit before listing expenses of approximately RMB5.9 million for the year ended 31 December 2015.

PROSPECTS

The FRP Grating products market in China experienced a growth from 2010 to 2015 at a CAGR of 7.1%, which was in line with the growth of China's GDP. Looking ahead, despite the slowdown of China's macro-economic conditions, it is expected that the FRP Grating products market in China will continue to develop, but in a slower pace. In spite of such, given that the market acceptance of the USCG Approved Phenolic Grating products and FRP Subway Evacuation Platform products in China is growing, it is expected that the market scale will further expand at a CAGR of 15.5% from 2015 to 2019. The application of Epoxy Wedge Strip products in wind turbine blades is a relatively new concept in China with growing acceptance among customers and hence it is estimated that the application will continue to grow at a CAGR of 17.7% from 2015 to 2019. The Group will continue to expand customer base and enhance product recognition by improving production technique and developing new products, so as to exercise more effective cost control and strengthen the competiveness of the Group. Meanwhile, the Group will recruit more talents to fulfil its development needs to support and expand its business.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express sincere gratitude to our employees and the management team for their hard works and contribution in the year. I would also like to thank all shareholders for their long-term support.

Chairman
Cheng Dong

Management Discussion and Analysis

REVIEW AND PROSPECTS

The Group is an established and leading manufacturer in the People's Republic of China (the "PRC") engaged in the research and development, production and sale of a variety of FRP products. The Group's major products consist of: (i) FRP Grating products; (ii) USCG Approved Phenolic Grating products; (iii) FRP Subway Evacuation Platform products; and (iv) Epoxy Wedge Strip products.

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

The outstanding quality and functionality of USCG Approved Phenolic Grating products are the reasons for its wide recognition and acceptance by domestic end-users from different sectors. The Group is also one of the four manufacturers in China which hold the certificate for USCG Approved Phenolic Grating products.

The Group has successfully developed FRP Subway Evacuation Platform products and Epoxy Wedge strip products in 2013 and 2014 respectively so as to pursue growth in the market segments.

The Board believes that research and development capabilities are essential to the future growth of the Group. In the year ended 31 December 2016, the Group spent approximately RMB2.5 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 in-house by the technical department, which is led by Mr. Jiang Guitang, an executive Director of the Company. Mr. Jiang has accumulated over 27 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.

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. In respond to the latest "Belt and Road Initiatives" promulgated by Chinese government, the Group focused the research and development efforts on developing and improving products with potential to be used in the infrastructure projects. As a result, several new products such as the FRP Subway Evacuation Platform products and Epoxy Wedge strip products were developed. A new product line, composite crossties for use in railways has been developed and will be rolled out for commercial production in 2017.

Management Discussion and Analysis

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 2016, the Group undertook the following marketing activities:

i. Participation in trade fairs and sales conventions including the JEC Composite Europe 2016 held in France in 2016;

ii. Placing advertisements on the internet such as Made-in-China.com (www.made-in-china.com), an online trading platform, and entering into promotion agreements with online search engine service provider to attract new customers;

iii. Identification of suitable tender invitation mainly by online advertisements and industry periodicals; and

iv. Visiting existing customers regularly to enhance their knowledge on the Group's products and competitive advantages, to promote new products, to understand their specific needs, to obtain feedbacks on the products and to get a better understanding on the market trends.

With regard to the environmental aspect, the Group is committed to minimising any negative impact on the environment which may be resulted from the production process. To achieve this objective, the Group have adopted various measures including the following: (i) setting environmental goals and objectives and regularly reviewing such goals and objectives; (ii) encouraging the reduction in gas emission, dust, noise and solid waste during the production process; (iii) using steam instead of coal-fired boiler for heating; (iv) installing activated carbon filtration units and planting trees around the production facilities to reduce air emission; (v) establishing a recycle system for recurring use of scraps in our production process; (vi) engaging qualified third parties to dispose of solid wastes; and (vii) providing training to our employees once a year to ensure that they work in an environmentally friendly and responsible manner. During the year ended 31 December 2016, 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. The following occupational health and safety measures have been implemented to maintain a safe working environment: (i) guidelines for operation and safety control procedures are documented and distributed to all employees; (ii) employees are provided with protective equipment such as gloves, dust masks, helmets and dust proof goggles; (iii) inspection and maintenance of equipment and facilities are conducted regularly to identify and eliminate safety hazard; (iv) health and work safety compliance records are maintained; and (v) trainings are provided to our employees once a year to raise their awareness as to occupational safety. During the year ended 31 December 2016, 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.

A full report on environment, social and governance will be published on the Company's website within three months after the publication of the Company's 2016 annual report in accordance with appendix 20 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

Management Discussion and Analysis

Despite the fact that the FRP Grating products market grows at a slower pace, 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 it is more well-positioned than other domestic enterprises in the industry to further develop and expand its markets and products.

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB63.3 million for the year ended 31 December 2016, representing an increase of approximately RMB6.9 million or 12.2% as compared to the corresponding twelve months in 2015. The increase in revenue was primarily attributable to the increase in sales revenue generated from sales of FRP Grating products, USCG Approved Phenolic Grating products and Epoxy Wedge Strip products.

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

	For the year ended 31 December 2016		For the year ended 31 December 2015	
	Sales revenue	**Gross profit margin**	Sales revenue	Gross profit margin
	RMB'000	**%**	RMB'000	%
FRP Grating products	**48,126**	**36.9**	43,978	36.2
USCG Approved Phenolic Grating products	**9,677**	**43.2**	6,531	45.6
FRP Subway Evacuation Platform products	**67**	**22.4**	3,471	38.7
Epoxy Wedge Strip products	**5,408**	**47.5**	2,425	41.8
	63,278	**38.5**	56,405	37.7

In the year ended 31 December 2016, sales of FRP Grating products remained the largest contributor to the Group's revenue and it accounted for approximately 76.1% of the total revenue. FRP Grating products were mainly sold to corporate customers in the PRC who generally are end-users of such products, as well as distributors in the 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. Revenue derived from sales of FRP Grating products increased by 9.4% from approximately RMB44.0 million in the year ended 31 December 2015 to approximately RMB48.1 million in the year ended 31 December 2016. This is mainly attributable to: (i) increase in the total number of PRC customers placing purchase for such products; and (ii) increase in sale of such products to the existing U.K., French and PRC customers. There is no notable fluctuation in the gross profit margin on comparison between the two years.

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 has increased by 48.2% from approximately RMB6.5 million in the year ended 31 December 2015 to approximately RMB9.7 million in the year ended 31 December 2016. The increase was primarily due to increase in the total number of PRC customers placing purchase orders for such products. The gross profit margin decreased by 2.4% from 45.6% for the year ended 31 December 2015 to 43.2% for the year ended 31 December 2016. This is primarily due to the decrease in average selling price because of normal price fluctuations and the variation in the raw material composition of such products.

FRP Subway Evacuation Platform products were sold to main contractors who principally engaged in railway construction works in the PRC. There was a substantial reduction in the sales of FRP Subway Evacuation Platform Products by 98.1% from approximately RMB3.5 million for the year ended 31 December 2015 to approximately RMB67,000 in the year ended 31 December 2016. This is mainly because of the delay in the progress of railway construction projects undertaken by the existing and potential customers. None of the customers placed any purchase order in the year ended 31 December 2016 except for an existing customer who placed a small amount of orders for replenishment on an ad hoc basis. The gross profit margin decreased by 16.3% from 38.7% for the year ended 31 December 2015 to 22.4% for the year ended 31 December 2016. This is primarily attributable to the extent of increase in average cost of sales for such products was larger than the relatively smaller increase in average sales price because of the small amount of purchase orders received for replenishment as mentioned above.

Expoxy Wedge Strip products were developed and launched in 2014 which targeted manufacturers of wind turbine blades in the PRC. The revenue derived from sales of Expoxy Wedge Strip products increased substantially by approximately RMB3.0 million or 123.0% from approximately RMB2.4 million for the year ended 31 December 2015 to approximately RMB5.4 million for the year ended 31 December 2016. This relatively substantial increase was mainly due to the increase in the total number of PRC customers placing orders for such products. The gross profit margin increased by 5.7% from 41.8% for the year ended 31 December 2015 to 47.5% for the year ended 31 December 2016. This is largely attributable to the substantial increase in sales of a kind of Expoxy Wedge Strip products with different shapes, weight and dimensions which were able to fetch a higher gross profit margin.

Management Discussion and Analysis

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

	For the year ended 31 December 2016		For the year ended 31 December 2015	
	Average selling price per unit	**Volume**	Average selling price per unit	Volume
	RMB	**m^2**	RMB	m^2
FRP Grating products	**285.2**	**168,773**	300.5	146,346
USCG Approved Phenolic Grating products	**564.3**	**17,148**	586.7	11,132
FRP Subway Evacuation Platform products	**854.7**	**78**	659.6	5,262
Epoxy Wedge Strip products	**29.2**	**185,356**	52.8	45,962

The average selling price of the FRP Grating products per m^2 decreased by 5.1% from RMB300.5 per m^2 for the year ended 31 December 2015 to RMB285.2 per m^2 for the year ended 31 December 2016, with an increase in sales in volume of 15.3% on comparison between the two years. The decrease in average selling price was mainly due to normal fluctuation in prices of different FRP Grating products and the variation in the composition of lower priced FRP Grading products sold.

The average selling price of the USCG Approved Phenolic Grating products per m^2 decreased by 3.8% from RMB586.7 per m^2 for the year ended 31 December 2015 to RMB564.3 per m^2 for the year ended 31 December 2016, with an increase in sales in volume of 54.0% on comparison between the two years. The decrease in average selling price was mainly due to: (i) normal fluctuation in prices of different USCG Approved Phenolic Grating products; (ii) variation in the raw material consumption of the products sold, using higher portion of fibre-glass than resin in accordance with customers' requests; and (iii) increase in sales of pultruded USCG Approved Phenolic Grating products, which had a lower average selling price.

The Group experienced an increase of 29.6% in the average selling price of FRP Subway Evacuation Platform products from RMB659.6 per m^2 for the year ended 31 December 2015 to RMB854.7 per m^2 for the year ended 31 December 2016. This is manly attributable to the fact that the Group received a small amount of purchase orders from an existing customer for replenishment on an ad hoc basis in the year ended 31 December 2016, which allowed the Group to charge a higher average selling price.

The average selling price of the Epoxy Wedge Strip products per m^2 decreased by 44.7% from RMB52.8 per m^2 for the year ended 31 December 2015 to RMB29.2 per m^2 for the year ended 31 December 2016, with an increase in sales in volume of 303.3% on comparison between the two years. The decrease in average selling price was mainly due to: (i) adopting the strategy to lower the selling price of Epoxy Wedge Strip products so as to capture certain prospective customers and to gain more market share; and (ii) the substantial increase in sale of a kind of products with different shape, weight and dimensions which had a lower average selling price.

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

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
PRC	**38,058**	29,273
U.S.	**13,549**	17,315
U.K.	**9,422**	6,953
Others	**2,249**	2,864
Total	**63,278**	56,405

Sales in the PRC market increased by 30.0% from approximately RMB29.3 million for the year ended 31 December 2015 to approximately RMB38.1 million for the year ended 31 December 2016, mainly because of increase in sales of the FRP Grating products, USCG Approved Phenolic Grating products and Epoxy Wedge Strip products.

Sales to the U.S. market decreased by 21.7% from approximately RMB17.3 million for the year ended 31 December 2015 to approximately RMB13.5 million for the year ended 31 December 2016, mainly because of decrease in sales to two customers in the U.S. It is believed that the decrease in sales to these two customers was caused by the decrease in sales of FRP grating products from these two customers to their respective customers.

Sales to the U.K. market increased by 35.5% from approximately RMB7.0 million for the year ended 31 December 2015 to approximately RMB9.4 million for the year ended 31 December 2016, mainly because of increase in sales of the FRP Grating products to a customer in U.K. who was the Group's third largest and the largest customer among all the foreign customers for the years ended 31 December 2015 and 2016 respectively.

Sales to the other locations decreased by 21.5% from approximately RMB2.9 million for the year ended 31 December 2015 to approximately RMB2.2 million for the year ended 31 December 2016, mainly because of decrease in sales to Australia, Canada, Germany and Uruguay due to normal fluctuation in demand for the FRP Grating products.

The reduction in other revenue from RMB1.1 million in the year ended 31 December 2015 to only RMB112,000 in the year ended 31 December 2016 was mainly attributable to the substantial reduction of interest income by approximately RMB1.0 million due to loans of approximately RMB9.1 million granted and repaid in the year ended 31 December 2015.

The selling and distribution costs decreased by approximately RMB0.7 million or 11% to approximately RMB5.7 million in the year ended 31 December 2016 from approximately RMB6.4 million in the year ended 31 December 2015. The decrease was mainly attributed to the specific allowances for doubtful debts amounting to approximately RMB770,000 recognised in the year ended 31 December 2015.

Management Discussion and Analysis

The administrative expenses increased by approximately RMB2.6 million, a 46.9% increase to approximately RMB8.1 million in the year ended 31 December 2016 from approximately RMB5.5 million in the year ended 31 December 2015. The increase was mainly attributable to the commencement to making social insurance and housing provident fund contributions for employees in full in accordance with the relevant laws and regulations since January 2016.

Finance costs decreased by approximately RMB1.3 million to approximately RMB1.1 million in the year ended 31 December 2016 from approximately RMB2.4 million in the year ended 31 December 2015. The decrease was mainly due to the general reduction in the bank interest rates and the decrease in the level of bank borrowings in the year ended 31 December 2016.

There was a swing from a profit of approximately RMB5.3 million for the year ended 31 December 2015 to a loss of approximately RMB7.7 million for the year ended 31 December 2016. This is due to the one-off listing expenses of approximately RMB14.4 million charged to the profit or loss account.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group held total assets of approximately HK$70.0 million (2015: approximately RMB69.2 million), including cash and cash equivalents of approximately HK$3.9 million (2015: approximately RMB14.7 million).

As at 31 December 2016, the Group had total liabilities of approximately HK$48.2 million (2015: RMB35.6 million) which mainly comprise of bank borrowings amounting to RMB20 million (2015: RMB20 million).

As at 31 December 2016, the gearing ratio, expressed as a percentage of net debt (bank borrowings less cash and cash equivalents) over total capital employed (net debt plus total equity attributable to owners of the Company) was about 42.5% compared to 15.1% as at 31 December 2015. This significant increase was mainly due to reduction in cash and cash equivalents by approximately RMB10.9 million from approximately RMB14.7 million as at 31 December 2015 to approximately RMB3.8 million as at 31 December 2016.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no contingent liabilities (2015: 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 US dollars, which is attributable to sales transactions entered into by the Group with overseas customers. The Group has adopted the following measures to mitigate the exposure to foreign exchange risk:

(i) the accounting and finance department would closely monitor the movement of relevant exchange rates to ensure that the net exposure is kept to an acceptable level;

(ii) quotations provided to our overseas customers are generally valid for one to three months only;

(iii) in the event that the relevant exchange rates fluctuate more than 5.0%, the 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 2016, the Group had the following charges on its assets:

(i) the leasehold land held for own use under operating lease with a carrying value of RMB1,512,000 as at 31 December 2016 (2015: RMB1,550,000) and the buildings with a carrying value of RMB9,335,000 as at 31 December 2016 (2015: RMB8,860,000) were pledged for a bank borrowing of RMB10,000,000;

(ii) an aggregate amount of RMB513,000 (31 December 2015: RMB113,000) was placed in a bank account and pledged in favour of customers in relation to a sales transaction.

Management Discussion and Analysis

CAPITAL STRUCTURE

As at 31 December 2016, the share capital and total equity attributable to equity holders of the Company amounted to approximately HK$8 and RMB21,814,000 respectively. As the Company was incorporated on 13 January 2016, there was no share capital and total equity attributable to equity holders of the Company was approximately HK$29,796,000 as at 31 December 2015.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had 124 employees (2015: 125). The total staff costs including Directors' remuneration for the year were approximately HK$10.3 million (2015: approximately HK$9.0 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.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

Apart from the corporate reorganisation as disclosed in the prospectus of the Company (the "Prospectus") dated 29 December 2016, there were no significant investments held, acquisitions or disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2016.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries and affiliated companies as at 31 December 2016.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLAN

The Company's Shares were only listed on 13 January 2017 and the proceeds from the placing of 100,000,000 Shares were only received subsequent to the year ended 31 December 2016. Hence, the implementation plan for the business objectives as stated in the Prospectus has not yet commenced during the year ended 31 December 2016. The Group is in its preliminary stage of implementing its business objectives and strategies. An analysis comparing the business objectives set out in the Prospectus with the Group's actual business progress up to the date of this report is set out below:

Business objectives	**Planned use of proceeds** (HK$'M)	**Implementation progress**
1. The enhancement of the existing production processes, and acquisition of new production facilities		As at the date of this report, the proceeds from placing have not been used in the implementation of the business objectives.
– Enhancement of the existing pultrusion equipment and associated resin basins and pre-pre-form machine to improve product quality and optimize production costs	0.7	
– Purchase hydraulic presses to produce the parts for the FRP Subway Evacuation Platform products	*(Note 1)* 2.4	
– Automation of the cutting process of the pultrusion production process to improve the cutting precision level and reduce labour costs	0.6	
– Purchase of automated FRP moulding production facilities to further enhance the product quality and lower the labour costs	2.8	

Management Discussion and Analysis

Business objectives	**Planned use of proceeds** (HK$'M)	**Implementation progress**
2. The further development of the products according to the expected growth trend as a result of the PRC's macroeconomic policies in promoting "Belt and Road Initiatives"		As at the date of this report, the proceeds from placing have not been used in the implementation of the business objectives.
– Redefine the features and characteristics of the new FRP crosstie products via communication with the existing and potential customers and conduct trial production	0.9	
– Development of the relevant quality control and testing equipment of the new FRP crosstie products	*(Note 2)* 0.2	
– Development and purchase of new production equipment for the new FRP crosstie products once the products are recognized by, and mass production orders are expected from potential customers	3.7	
– Procurement of testing equipment for continuous research and development in order to further optimize the production process of the new FRP crosstie products	0.6	

Business objectives	Planned use of proceeds (HK$'M)	Implementation progress
3. Enhancement of the research and development capabilities by – procurement of testing equipment and raw materials for the existing product portfolio – recruitment of additional research and development staff	 0.3 0.3	As at the date of this report, the proceeds from placing have not been used in the implementation of the business objectives.
4. General working capital – Deployment of funds to accommodate the working capital needs, in particular relating to the upcoming production of the new FRP crosstie products	1.1	
	13.6	

Note:

1. Approximately RMB52,000 have been used from the Group's own internal resources in this category.

2. Approximately RMB53,000 have been used from the Group's own internal resources in this category.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cheng Dong (成東), aged 41, is the chairman of our Board and was appointed as an executive Director on 16 March 2016 and is mainly responsible for overall management and administration of our business operations. He is also a member of each of the Nomination Committee and the Risk Management Committee.

Mr. Cheng completed a course in Grain and Oil Storage and Inspection (糧油貯藏與檢驗) at Jiangsu Province Zhenjiang Food School (江蘇省鎮江糧食學校), now known as the Jiangsu University of Science and Technology (江蘇科技大學), the PRC in July 1995. Mr. Cheng has more than 21 years' experience in sales. Before joining our Group, Mr. Cheng worked at the sales department of Jiangsu White Rabbit Textile Group Co., Ltd (江蘇白兔紡織集團股份有限公司) from May 1995 to February 2005, and was responsible for sales. Mr. Cheng joined our Group in August 2006 as sales personnel. He has been working as a vice president of sales, responsible for marketing development and maintenance, management of sales performance and implementation of sales strategies of our Group, since May 2013.

Mr. Cheng has not held any directorship in any public listed company in the past three years.

Mr. Jiang Guitang (姜桂堂), aged 51, is our executive Director, chief executive officer and one of our Controlling Shareholders. He was appointed as an executive Director on 16 March 2016. He is responsible for the overall management, strategic development and major decision-making of our Group. Mr. Jiang is a director of each of Prosperous Composite and Nantong Meigu and the general manager of Nantong Meigu. Mr. Jiang is also a member of the Remuneration Committee.

Mr. Jiang obtained the bachelor degree of chemical engineering from Nanjing Chemical College(南京化工學院) (now known as Nanjing Tech University), the PRC in July 1988. From March 1988 to May 1994, Mr. Jiang was a distribution sales of the chemical engineering department of Nantong Xingchen Synthetic Material Co. Ltd (南通星辰合成材料有限公司), previously known as Nantong Composite Material Experiment Factory (南通合成材料實驗廠). From August 1995 to April 1999, he worked as a business manager of Nantong Foreign Trade Company (南通對外貿易公司) and was responsible for sales. He also worked as a quality controller of China region in The United States Kangbaoer Company (美國康寶爾公司) from February 2000 to March 2001. He then became an export sales staff of Nantong Mingkang Composite Material Company Limited (南通明康複合材料有限公司) from April 2002 to March 2003. Mr. Jiang joined our Group in April 2003 and has more than 13 years' experience in the manufacturing and sales of FRP products.

Mr. Jiang has not held any directorship in any public listed company in the past three years.

Ms. Shi Dongying (施冬英), aged 42, is our executive Director and the compliance officer of our Group. She was appointed as an executive Director on 6 May 2016. She is responsible for overall management and administration of our business operations, as well as overseeing compliance matters of our Group. She is also the chairman of the Risk Management Committee.

Ms. Shi completed an undergraduate course in accounting at The Open University of China (中央廣播電視大學) in January 2014. Ms. Shi has over 20 years of accounting experience and she is a non-practising member of the Chinese Institute of Certified Public Accountants. From August 1994 to May 2005, Ms. Shi worked as an accountant in Haimen Linen and Cotton Processing Factory (海門市棉麻加工廠). From March 2006 to October 2015, she worked as a head of accounting department in Nantong Sancon Electronic Technology Corporation (南通三鑫電子科技股份有限公司). She joined our Group in October 2015 as deputy executive officer.

Ms. Shi has not held any directorship in any public listed company in the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Huang Xin (黃昕), aged 34, was appointed as an independent non-executive Director on 16 December 2016. He is responsible for supervising and providing independent advice on the operation and management of our Group. He is also a member of each of the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee.

Mr. Huang obtained a bachelor degree of engineering from Nanjing University of Science and Technology (南京理工大學), the PRC in June 2003 and a degree of master of business administration from The Indiana University, the United States in May 2010.

He previously worked as software engineer in Siemens Numerical Control Ltd. (Nanjing), mainly responsible for development of products and internal management software, from July 2003 to August 2004, and as quality consultant in Motorola (China) Electronics Co., Ltd., mainly responsible for company management and quality process improvement, from August 2004 to June 2008. Mr. Huang then worked as senior manager in China Investment Securities Co., Ltd., responsible for providing advice on the corporate financing and reorganisation, from October 2010 to December 2012. From December 2012 to March 2015, he worked at the investment banking department in Citi Orient Securities Company Limited, and left the company as the associate vice president of operations. Mr. Huang is currently a deputy general manager in Shenzhen Qianhai Huawei Asset Management Company Limited (深圳前海華威資產管理有限公司), mainly responsible for assets management and capital operation.

Mr. Huang has not held any directorship in any public listed company in the past three years.

Biographical Details of Directors and Senior Management

Mr. Tam Tak Kei Raymond (譚德機), aged 53, was appointed as an independent non-executive Director on 16 December 2016. He is responsible for supervising and providing independent advice on the operation and management of our Group. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and Risk Management Committee.

Mr. Tam obtained a bachelor degree of arts in accounting with computing from the University of Kent at Canterbury, United Kingdom in July 1985. He is an associate member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Tam has been appointed as an independent non-executive director of Vision Fame International Holding Limited (Stock Code: 1315), CNQC International Holdings Limited (Stock Code: 1240) and Li Bao Ge Group Limited (Stock Code: 8102) since December 2011, September 2012 and June 2016 respectively. He is also the company secretary of Branding China Group Limited (Stock Code: 863) since April 2013. He was an independent non-executive director of Digital Domain Holdings Limited (Stock Code: 547) from September 2009 to August 2013; Zebra Strategic Holdings Limited, now known as Yin He Holdings Limited (Stock Code: 8260) from June 2012 to September 2014; Tianjin Jinran Public Utilities Company Limited (Stock Code: 1265) from February 2011 to June 2015; Ngai Shun Holdings Limited (Stock Code: 1246) from September 2013 to July 2015; and Beijing Enterprises Clean Energy Group Limited, previously known as Jin Cai Holdings Company Limited (Stock Code: 1250), from June 2013 to July 2016. He was also the chief financial officer of King Force Security Holdings Limited (Stock Code: 8315) during the period from April 2014 to November 2014.

Save as disclosed above, Mr. Tam has not held any directorship in any public listed company in the past three years.

Biographical Details of Directors and Senior Management

Mr. Ng Sai Leung (吳世良), aged 44, was appointed as an independent non-executive Director of our Group on 16 December 2016. He is responsible for supervising and providing independent advice on the operation and management of our Group. He is also the chairman of the Audit Committee and a member of the Nomination Committee.

Mr. Ng obtained a bachelor degree in business administration from The University of Hong Kong in November 1995 and a master degree in business administration from The Chinese University of Hong Kong in December 2002. Mr. Ng is a fellow of American Institute of Certified Public Accountant and a Chartered Financial Analyst.

Mr. Ng has over 15 years of experience in corporate finance and accounting, including managing various initial public offerings, advising listed companies on mergers and acquisitions, reverse takeovers, privatisations, fund raising exercises and other corporate advisory transactions. Mr. Ng previously worked as an auditor in Ernst & Young Global Limited from August 1995 to March 1997, a junior internal officer in the private banking division of UBS Securities Asia Limited (previously known as Swiss Bank Corporation Hong Kong Branch) from March 1997 to February 1998, and an officer in the Compliance Department in Hong Kong Futures Exchange Limited from March 1998 to September 1999. He worked in the corporate finance department of Tai Fook Capital Limited, now known as Haitong International Capital Limited, as an assistant manager, a manager and a senior manager respectively from September 1999 to April 2004. From April 2004 to May 2006, he consecutively worked as a senior manager and an associate director in Masterlink Securities (Hong Kong) Corporation Limited. Mr. Ng worked in CIMB Securities (Hong Kong) Limited as a vice president and a senior vice president of corporate finance division from June 2006 to August 2010 respectively. From August 2010 to January 2015, he worked as a director in the investment banking department of CMB International Capital Corporation Limited. Mr. Ng has been a managing director of VBG Capital Limited since January 2015.

Save as disclosed herein, Mr. Ng has not held any directorship in any public listed companies in the past three years.

SENIOR MANAGEMENT

Mr. Ng Chi Ho Dennis (吳志豪), aged 58, was appointed as the company secretary of our Group on 16 December 2016. He is responsible for our Group's overall company secretarial matters.

Mr. Ng obtained a degree of bachelor of commerce in accounting, finance and systems from The University of New South Wales, Australia in October 1982. He is a chartered accountant of The Chartered Accountants Australia and New Zealand, an associate of the Hong Kong Institute of Company Secretaries and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ng has extensive experience in auditing, accounting, financial management and corporate affairs. He worked as the chief financial officer and a company secretary of Matsunichi Communication Holdings Limited, now known as Goldin Properties Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 283) from August 2004 to July 2005. Mr. Ng was the company secretary of Powerleader Science & Technology Group Limited (Stock Code: 8236), the shares of which are listed on the GEM of the Stock Exchange from July 2007 to April 2010, and Tech Pro Technology Development Limited (Stock Code: 3823), the shares of which are listed on the Main Board of the Stock Exchange from December 2009 to July 2013. He was also an independent non-executive director of Sunrise (China) Technology Group Limited (Stock Code: 8226), the shares of which are listed on the GEM of the Stock Exchange from June 2014 to May 2015. Mr. Ng is currently the company secretary and the chief financial officer of Celebrate International Holdings Limited (Stock Code: 8212), an independent non-executive director of Media Asia Group Holdings Limited (Stock Code: 8075), and an independent non-executive director of Kirin Group Holdings Limited, previously known as Creative Energy Solutions Holdings Limited (Stock Code: 8109), all of which are companies listed on the GEM of the Stock Exchange.

Save as disclosed above, Mr. Ng has not been a director of any listed companies over the past three years.

Mr. Liu Dansheng (劉旦生), aged 49, is the deputy general manager of our Group and is responsible for internal coordination between different departments of our Group and management of production plant. Mr. Liu graduated from Changzhou Material School (常州物資學校), now known as Changzhou Technical Institute of Tourism and Commerce (常州旅 遊商貿高等職業技術學校), the PRC in July 1987, majoring in operation management. From March 1987 to March 2010, Mr. Liu worked as a business officer and sales representative in Haimen Chemical and Light Industry Company (海門化工輕工公司).

Mr. Liu joined our Group in June 2010 as deputy general manager and manager of production plant.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board is committed to establish good corporate governance and adopt sound corporate governance practices. The Directors strongly believe that reasonable and sound corporate governance practices are essential for the growth of the Group and for safeguarding and enhancing shareholders' interests.

As the Shares were listed on 13 January 2017 (the "Listing Date"), the Company was not required to comply with the requirements set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the year ended 31 December 2016. However, the Directors consider that since 13 January 2017 and up to the date of this report, the Company has complied with all the applicable code provisions set out in the CG Code.

BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees of the Company. Further details of the board committees of the Company are set out below in this report.

The Board is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for day to day management of the Company which is delegated to the management. To this end, monthly financial and operational information are provided to the Board for assessing the performance of the Company and its subsidiaries. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

Corporate Governance Report

The Board is responsible for, among others, performing the corporate governance duties as set out in the code provision D.3.1 of the CG Code, which include:

(a) to develop and review our Group's policies and practices on corporate governance and make recommendations;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) review and monitor our Group's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and

(e) to review our Group's compliance with the CG Code and disclosure in the corporate governance report.

The Board currently comprises six Directors, of whom three are executive Directors and three are independent non-executive Directors. Two independent non-executive Director have the appropriate professional accounting qualifications or related financial management experience and expertise. Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and until terminated by either the Company or the executive Director giving each other a two months' notice in writing in accordance with the terms of the agreement. Each of the independent non-executive Directors was appointed under a service agreement for a fixed term of two years initially commencing from the Listing Date until terminated by either the Company or the independent non-executive Director giving each other a two months' notice in writing in accordance with the agreement.

In accordance with Article 108(a) of the articles of association of the Company, at each annual general meeting, at least one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Mr. Cheng Dong and Mr. Jiang Guitang will retire from office as Directors at the forthcoming annual general meeting of the Company, and being eligible, offer themselves for re-election.

The participation of independent non-executive Directors in the Board bring a diverse range of expertise, skills and independent judgment on issues relating to the Group's strategies, performance, conflicts of interests and management process to ensure that the interests of all shareholders of the Company have been duly considered. The Board considers that all the independent non-executive Directors are independent and each of the independent non-executive Directors has confirmed in writing his independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules.

There is a balance of skills and experience for the Board, which is appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

Pursuant to the code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The Board has adopted the board diversity policy with a view to achieve a sustainable and balanced development of our Group. In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. This diversity policy is reviewed annually by the nomination committee of the Company, and where appropriate, revisions will be made with the approval from the Board.

CONTINUOUS PROFESSIONAL DEVELOPMENT

The Group acknowledges the importance of continuing professional development for the Directors for the enhancement of corporate governance and internal control system. In this regard and in compliance with code provision A.6.5 of the CG Code, the Group provides funding to all Directors to participate in continuous professional development organised in the form of in-house training and seminars so as to keep them refreshed of their knowledge and skills and understanding of the Group's business and to update their skills and knowledge on the latest development or changes in the relevant statutes, the GEM Listing Rules and corporate governance practices.

Pursuant to the code provision A.6.5 of the CG Code, during the year ended 31 December 2016, all Directors had participated in continuous professional development in the following manner:

	Attending training on Director's responsibilities provided by the Company's legal consultant	Reading materials issued during the training session
Executive Directors		
Mr. Cheng Dong	✔	✔
Mr. Jiang Guitang	✔	✔
Ms. Shi Dongying	✔	✔
Independent Non-executive Directors		
Mr. Huang Xin	✔	✔
Mr. Tam Tak Kei Raymond	✔	✔
Mr. Ng Sai Leung	✔	✔

Corporate Governance Report

BOARD MEETINGS

Pursuant to code provision A.1.1 of the CG Code, the Board should meet regularly and Board meetings should be held at least four times a year. Additional meetings would be arranged if and when required. Board members are provided with all agenda and adequate information for their review within reasonable time before the meetings. After the meeting, draft minutes are circulated to all Directors for comments before confirmation. Minutes of board meetings and meetings of board committees are kept by the company secretary and are available for inspection by the Directors at all times. Each Director is entitled to seek independent professional advice in appropriate circumstances at the expense of the Company.

Directors may participate either in person or through electronic means of communications. Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. During the year ended 31 December 2016, the Company held a board meeting to consider and approve the relevant resolutions in relation to the Listing. As the Shares were listed on 13 January 2017, the Company was not required to comply with the code provision A1.1 of the CG Code during the year ended 31 December 2016. A Board meeting has been scheduled to be held on 24 March 2017, which is the first Board meeting of the Company since the Listing Date.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established to ensure a balance of power and authority.

Mr. Cheng Dong serves as the chairman of the Board and is responsible for overall business development strategy and overall management and major business decisions of the Group. Mr. Jiang Guitang serves as the chief executive officer of the Company and is responsible for general management and day-to-day operation of our Group.

AUDIT COMMITTEE

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

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance.

The members of the audit committee should meet at least four times a year. Due to the fact that the Shares were listed on 13 January 2017, the audit committee did not hold any meeting during the year ended 31 December 2016. The first meeting of the audit committee has been scheduled on 24 March 2017.

The Group's audited annual results in respect of the year ended 31 December 2016 have been reviewed by the audit committee. There was no disagreement between the Board and the audit committee regarding selection and appointment of the external auditor in respect of the year ended 31 December 2016.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 16 December 2016 with written terms of reference by reference to the code provisions of the CG Code. The remuneration committee comprises of three members, namely Mr. Jiang Guitang, an executive Director, Mr. Huang Xin and Mr. Tam Tak Kei Raymond, both being independent non-executive Directors. Mr. Tam Tak Kei Raymond currently serves as the chairman of the remuneration committee.

The primary duties of the remuneration committee are to make recommendations on the remuneration of the Directors and senior management to the Board and to review the overall remuneration policy and structure relating to the Directors and senior management.

The members of the remuneration committee should meet at least once a year. Due to the fact that the Shares were listed on 13 January 2017, the remuneration committee did not hold any meeting during the year ended 31 December 2016. The first meeting of the remuneration committee has been scheduled on 24 March 2017.

NOMINATION COMMITTEE

The Company established a nomination committee on 16 December 2016 with written terms of reference by reference to the code provisions of the CG Code. The nomination committee comprises of three members, namely Mr. Cheng Dong, an executive Director, Mr. Huang Xin and Mr. Ng Sai Leung, both being independent non-executive Directors. Mr. Huang Xin currently serves as the chairman of the nomination committee.

The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management.

The members of the nomination committee should meet at least once a year. Due to the fact that the Shares were listed on 13 January 2017, the nomination committee did not hold any meeting during the year ended 31 December 2016. The first meeting of the remuneration committee has been scheduled on 24 March 2017.

RISK MANAGEMENT COMMITTEE

The Company established a risk management committee on 16 December 2016 with written terms of reference. The risk management committee comprises of three members, namely Ms. Shi Dongying and Mr. Cheng Dong, both being executive Directors, and Mr. Tam Tak Kei Raymond, being independent non-executive Director. Ms. Shi Dongying currently serves as the chairman of the risk management committee.

The primary duties of the risk management committee include, among others, monitoring the Group's exposure to sanction risks and export controls and the implementation of the related internal control procedures, and evaluate sanctions risks prior to determining whether any business opportunities should be embarked in any sanctioned countries and/or with any sanction persons.

The members of the risk management committee should meet at least once a year. Due to the fact that the Shares were listed on 13 January 2017, the risk management committee did not hold any meeting during the year ended 31 December 2016. The first meeting of the risk management committee has been scheduled on 24 March 2017.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed KGI Capital Asia Limited as its compliance adviser (the "Compliance Adviser"). Pursuant to Rule 6A.23 of the GEM Listing Rules, the Company will consult with and seek advice from the compliance adviser on a timely basis in matters, including among others, (i) publication of regulatory announcements, circulars or financial reports; (ii) contemplation of notifiable or connected transactions; (iii) change in the use of proceeds from placing of 100,000,000 shares of the Company on 12 January 2017 or change in the business activities from the forecast plan; and (iv) inquiry from the Stock Exchange of Hong Kong Limited.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and end on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

Except for the Compliance Adviser agreement entered into between the Company and the Compliance Adviser dated 14 March 2016, neither the Compliance Adviser nor its Directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

COMPANY SECRETARY

Company Secretary supports the Board by ensuring good information flow within the Board and that the Board policy and procedures are followed. The Company Secretary is responsible for advising the Board on the corporate governance matters and facilitating induction and professional development of the Directors. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws, rules and regulations, are followed.

Mr. Ng Chi Ho Dennis was appointed as the Company Secretary of the Group on 16 December 2016. He has complied with all the required qualifications, experiences and training requirements under the GEM Listing Rules.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group that give a true and fair view of the state of affairs, results and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required of the GEM Listing Rules. As at 31 December 2016, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The independent auditor's report about their reporting responsibility on the consolidated financial statements of the Group is set out in the independent auditor's report on pages 40 to 44 of this report.

AUDITOR'S REMUNERATION

During the year, remuneration paid/payable to auditors for audit services is approximately RMB724,000, and RMB2,215,000 for acting as the reporting accountant in relation to the prospectus of the Company issued on 29 December 2016.

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, the Company was not aware of any non-compliance with the required standard as set out in the code of conduct regarding securities transactions by the Directors up to the date of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for establishing and maintaining appropriate and effective risk management and internal control systems of the Group. The Group's systems of risk management and internal control include a defined management structure with limits of authority, is designed to help achieve business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been established. The division/department head of each core business segment is accountable for the conduct and performance of such segment within the agreed strategies, which are set by themselves and the Board together, and reports directly to the Board.

Corporate Governance Report

In the course of conducting the business of the Group, it is exposed to various types of risks, including business risks, financial risks, operation and other risks. The Board is ultimately responsible for the risk management of the Group and it has delegated to executive management to carry out the risk identification and monitoring procedures. The objectives of the risk management are to enhance the governance and corporate management processes as well as to safeguard the Group against unacceptable levels of risks and losses.

The risk management process of the Group will involve, among others, (i)an annual risk identification and analysis exercise which involves assessment of the consequence and likelihood of risks and the development of risk management plans for mitigating such risks; and (ii) an annual review of the implementation of the risk management plans and fine tuning of the implementation plan when necessary.

Although the Group does not maintain an internal audit function, the Board has overall responsibility for the risk management and internal control systems and for reviewing its effectiveness. In preparation for the Listing, an independent internal control consultant has been appointed to carry out a review of the implemented system and procedures, including areas covering financial, operational and legal compliance controls and risk management functions covering the period from 1 January 2015 to 30 November 2015 and a follow-up review was also carried out in March 2016 after the Company implemented the recommended remedial measures. The Directors were satisfied that effective internal control measures as appropriate to the Group for the year ended 31 December 2016 were implemented properly and that no significant areas of weaknesses came into attention.

INVESTOR RELATIONS

The Board puts great emphasis on investor relationship in particular fair disclosure and comprehensive report of the Company's performance and activities.

Shareholders are encouraged to attend the general meetings of the Company and the Directors always make efforts to fully address any questions raised by the shareholders at the annual general meetings (the "AGM") and the extraordinary general meetings (the "EGM") of the Company. In addition, shareholders have the right to nominate a person to stand for election as a director at any general meeting by lodging a written notice to the Company.

The first AGM of the Company will be held on 25 May 2017, the notice of which shall be sent to the Company's shareholders in accordance with the articles of association of the Company, the GEM Listing Rules and other applicable laws and regulations.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING AND TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

The company's shareholders may put forward proposals at general meetings by requisitioning an EGM. Pursuant to article 64 of the articles of association of the Company, EGM may be convened by the Board on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

The shareholders of the Company may at any time send their enquiries and concerns to the Board in writing. Contact details are as follows:

Address:	Room 1603, 16/F China Building 29 Queen's Road Central Hong Kong
Tel:	2543 0633
Fax:	2543 9996
E-mail:	info@nantongrate.com.cn

Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board committees of the Company, where appropriate, to answer the shareholders' questions.

COMMUNICATION WITH SHAREHOLDERS

On 13 January 2017, the Board adopted a shareholders' communication policy reflecting mostly the current practices of the Company for communication with its shareholders. Such policy aims to set out the provisions with the objective of ensuring that the Company's shareholders, both individual and institutional, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company. The Company has established a number of channels for maintain on-going dialogue with the shareholders as follows:

(a) corporate communications such as annual reports, quarterly reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website and the Company's website;

(b) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(c) corporate information is made available on the Company's website;

(d) AGM and EGM provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and

(e) the Company's share registrars serve the shareholders in respect of share registration, dividend payment, change of shareholders' particulars and related matters.

CONSTITUTIONAL DOCUMENTS

The amended and restated memorandum and articles of association of the Company were adopted on 16 December 2016 to comply with the relevant provisions of the GEM Listing Rules.

A copy of the memorandum and articles of association of the Company is posted on the designated website of the GEM of the Stock exchange and the website of the Company.

There had been no changes in the memorandum and articles of association of the Company since the Listing Date to the date of this report.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as exempted company with limited liability on 13 January 2016.

The Company completed the corporate reorganisation (the "Reorganisation") on 16 March 2016 in preparation for the Listing, pursuant to which the Company became the holding company of the companies now comprising the Group.

Details of the Reorganisation are set out in paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Development" in the Prospectus. The Shares were listed on GEM of the Stock Exchange on 13 January 2017 by way of placing.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the research and development, production and sales of fibreglass reinforced plastic products in the PRC. The Company acts as an investment holding company. The principal business of the Group is carried out through Nantong Meigu Composite Materials Company Limited, which is an indirect wholly-owned subsidiary of the Company incorporated in the PRC.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 45 to 46 of this annual report.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2016 (2015: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 24 to the consolidated financial statements of this annual report.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 49 of this annual report.

The Company's reserves available for distribution to the shareholders as at 31 December 2016 amounted to RMB18,223,000.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the last three financial years is set out on page 110 of this annual report.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Cheng Dong *(Chairman)*	(Appointed on 16 March 2016)
Mr. Jiang Guitang *(Chief Executive Officer)*	(Appointed on 16 March 2016)
Ms. Shi Dongying	(Appointed on 6 May 2016)
Mr. Shen Weixing	(Appointed on 13 January 2016 and resigned on 16 March 2016)
Mr. Shen Qixian	(Appointed on 16 March 2016 and resigned on 23 June 2016)

Independent Non-executive Directors:

Mr. Huang Xin	(Appointed on 16 December 2016)
Mr. Tam Tak Kei Raymond	(Appointed on 16 December 2016)
Mr. Ng Sai Leung	(Appointed on 16 December 2016)

In accordance with article 108 (a) and (b) of the articles of association of the Company, Mr. Cheng Dong and Mr. Jiang Guitang will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Each of the independent non-executive Directors has confirmed in writing his independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors are independent to the Company.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for election at the forthcoming annual general meeting has or is proposed to have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation, other than the statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Apart from the contracts and agreements relating to the Reorganisation and saved as disclosed in this report, there was no transaction, arrangement or contract of significance to which the Company or any related companies (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As the Shares were listed on the GEM of the Stock Exchange on 13 January 2017, the Company was not required to keep any register under Part XV of the Securities and Futures Ordinance ("SFO") as at 31 December 2016.

Subsequent to the Listing, the interests and short positions of the Directors and chief executive of the Company in Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) pursuant to section 352 of the SFO to be entered in the register referred to therein pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and to be notified to the Company and the Stock Exchange are as follows:

(i) Long position in the Shares

Name	Capacity/Nature of interest	Number of shares held/interested in	Percentage of interest in the Company
Mr. Jiang Guitang ("Mr. Jiang") *(Notes 1 and 2)*	interest held jointly with other persons; interest in a controlled corporation	300,000,000	75%

Notes:

1. Mr. Jiang beneficially owns 100% of the entire issued share capital of Singa Dragon International Ventures Limited ("Singa"). Therefore, Mr. Jiang is deemed, or taken to be, interested in all the Shares held by Singa for the purposes of the SFO.

2. Pursuant to the concert party deed (the "Concert Party Deed") entered into among Mr. Shen Weixing ("Mr. Shen), Mr. Jiang, Munsing Developments Limited ("Munsing") and Singa dated 16 December 2016, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Repurchases) since 1 January 2014, and that Mr. Shen, Mr. Jiang, Munsing and Singa are parties acting in concert in the course of the Reorganisation and until the date of any written termination by them. As such, Mr. Jiang, together with Mr. Shen, Munsing and Singa control 75% of the entire share capital of the Company.

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

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

DIRECTOR'S RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year 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 year.

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

As the Shares were listed on the GEM of the Stock Exchange on 13 January 2017, the Company was not required to keep any register under Part XV of the SFO as at 31 December 2016. So far as is known to the Directors, the following persons (not being a Director or chief executive of the Company), immediately after the Listing, would have interest or short position in Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name	Capacity/Nature of interest	Number of shares held/interested in	Percentage of interest in the Company
Mr. Shen *(Notes 1 and 2)*	interest held jointly with other persons; interest in a controlled corporation	300,000,000	75%
Munsing *(Notes 1 and 2)*	interest held jointly with other persons; beneficial owner	300,000,000	75%
Singa *(Note 2)*	interest held jointly with other persons; beneficial owner	300,000,000	75%
Ms. Gong Hui *(Note 3)*	interest of spouse	300,000,000	75%
Ms. Chen Lijuan *(Note 4)*	interest of spouse	300,000,000	75%

Notes:

1. Mr. Shen beneficially owns 100% of the entire issued share capital of Munsing. Therefore, Mr. Shen is deemed, or taken to be, interested in all the Shares held by Munsing for the purposes of the SFO.

2. Pursuant to the Concert Party Deed, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Repurchases) since 1 January 2014, and that Mr. Shen, Munsing, Singa and Mr. Jiang are parties acting in concert in the course of the Reorganisation and until the date of any written termination by them, As such, Mr. Shen, Munsing, Singa and Mr. Jiang together control 75% of the entire share capital of the Company.

3. Ms. Gong Hui is the spouse of Mr. Shen and is deemed or taken to be interested in all the Shares in which Mr. Shen has, or is deemed to have, an interest for the purpose of the SFO.

4. Ms. Chen Lijuan is the spouse of Mr. Jiang and is deemed or taken to be interested in all the Shares in which Mr. Jiang has, or is deemed to have, an interest for the purpose of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2016, 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 27 to the consolidated financial statements of this annual report. These related party transactions did not constitute connected transactions or continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, sales to the Group's five largest customers accounted for 34.2% (2015: 42.5%) of the total revenue of the Group, while the percentage of the total revenue of the Group attributable to the Group's largest customer was approximately 8.0% (2015: 11.1%).

For the year ended 31 December 2016, purchases from the Group's five largest suppliers accounted for 44.0% (2015: 38.4%) of the total cost of sales the Group, while the percentage of the total cost of sales of the Group attributable to the Group's largest supplier was approximately 11.4% (2015: 18.0%).

None of the Directors of the Company, or any of their close associates or any other shareholders, which, to the best knowledge of the Directors, owns more than 5% of the number of issued Shares, had any interests in the Group's five largest customers and suppliers during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PERMITTED INDEMNITY PROVISION

Since the Shares were not listed until 13 January 2017, the Company did not maintain a directors and officers liability insurance during the year ended 31 December 2016. A directors' liability insurance is currently in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

COMPETING INTERESTS

The Directors confirm that none of the controlling shareholders, namely Mr. Shen, Mr. Jiang, Munsing and Singa (the "Controlling Shareholders"), 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 our Group which competes or is likely to compete, directly or indirectly, with our Group's business during the year ended 31 December 2016 and up to the date of this report.

DEED OF NON-COMPETITION

The Controlling Shareholders, namely Mr. Jiang, Mr. Shen, Munsing and Singa entered into a deed of non-competition (the "Deed of Non-competition") on 16 December 2016 in favour of the Company and its subsidiaries. Pursuant to the Deed of Non-competition, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of its subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its close associates (other than any member of our Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group within the PRC, Hong Kong and such other parts of the world where any member of the Group may operate from time to time, or any business activity to be conducted by any member of the Group from time to time within the PRC, Hong Kong and such other parts of the world after the Listing, save for the holding of not more than 5% shareholding interests (individually or with his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Controlling Shareholders (individually or with his/its close associates).

Each of the Controlling Shareholders further undertakes that if he/it or his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with any business opportunity of the Group, he/it shall procure that his/its close associates to promptly notify the Group in writing and the Group shall have a right of first refusal to take up such opportunity. The Group shall, within 30 days after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Controlling Shareholder(s) whether our Group will exercise the right of first refusal.

The Group shall only exercise the right of first refusal upon the approval of all independent non-executive Directors who do not have any interest in such opportunity. The relevant Controlling Shareholder(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

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

The Shares were listed on the GEM of the Stock Exchange on 13 January 2017. As the Shares were not listed on the GEM of the Stock Exchange as at 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities after the Listing Date and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position can be found in the management discussion and analysis set out on pages 6 to 17 of this annual report. These discussions form part of this report.

CORPORATE GOVERNANCE

Information on the corporate government practices adopted by the Company is set out in the "Corporate Governance Report" on pages 23 to 31 of this annual report.

EVENT AFTER THE REPORTING PERIOD

On 13 January 2017, the Shares were successfully listed on the GEM of the Stock Exchange with stock code 8349. Save as disclosed, there is no significant event after the reporting period of the Group.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by Crowe Horwath (HK) CPA Limited Limited ("Crowe Horwath"). Crowe Horwath shall retire in the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting. There is no change in auditor since the date of the Listing.

On behalf of the Board

Mr. Jiang Guitang
Director

Hong Kong, 24 March 2017

Independent Auditor's Report to the Shareholders of MEIGU Technology Holding Group Limited

(Incorporated in the Cayman Islands with limited liability)

Crowe Horwath™

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

OPINION

We have audited the consolidated financial statements of MEIGU Technology Holding Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 109, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with the Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

The Key Audit Matter	How the matter was addressed in our audit
Impairment of trade and bills receivables (Refer to Notes 3(g)(i), 18, 26(a) and 29(b)(i) to the consolidated financial statements.) At 31 December 2016, trade and bills receivables amounted to approximately RMB38.6 million, net of provision for impairment of approximately RMB1 million, for which there are no collaterals as security for settlement. In the normal ordinary course of its business, the Group grants its customers with credit period up to 180 days after billing. The Group's top five largest debtors accounted for approximately 40.39% of its total trade and bills receivables at 31 December 2016. This may give rise to the risk of bad debt losses arising from unfavourable changes in the customers' abilities to settle their trade debts after year-end. Management judgement and inherent estimation uncertainty are involved in determining the completeness of the trade and bills receivables provision and in assessing its adequacy through considering the expected recoverability of the year-end trade and bills receivables.	We reviewed and challenged the assumptions applied by management in estimating the provision for impairment against trade and bills receivables at the year end. This included: – reviewing the Group's credit control and debt recovery procedures and actions taken to monitor and collect the trade and bills receivables; – reviewing historical settlement history of the customers and testing subsequent cash receipts from the customers after the year end; – assessing ageing analysis for trade and bills receivables by customers and updated creditworthiness of the customers; – enquiring management of any disputes with customers, assessing the discrepancies to the debtor confirmations directly obtained from the customers and reviewing correspondences with the customers for dispute; and – checking the accuracy of calculation of the required provision for the impairment of doubtful debts. We also assessed the Group's disclosures in respect of trade and bills receivables in note 18 to the consolidated financial statements.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we were required to report the fact. We have nothing to report in this regard.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 24 March 2017

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Revenue	4	**63,278**	56,405
Cost of sales		**(38,942)**	(35,141)
Gross profit		**24,336**	21,264
Other revenue	5	**112**	1,096
Other net income	5	**1,040**	657
Selling and distribution costs		**(5,667)**	(6,376)
Listing expenses	6(c)	**(14,382)**	(577)
Administrative expenses		**(8,123)**	(5,530)
(Loss)/profit from operations		**(2,684)**	10,534
Finance costs	6(a)	**(1,127)**	(2,447)
(Loss)/profit before taxation	6	**(3,811)**	8,087
Income tax	7(a)	**(3,887)**	(2,762)
(Loss)/profit for the year		**(7,698)**	5,325
Other comprehensive income for the year		**–**	–
Total comprehensive (loss)/income for the year		**(7,698)**	5,325
(Loss)/profit for the year attributable to:			
Owners of the Company		**(7,771)**	4,380
Non-controlling interest		**73**	945
		(7,698)	5,325

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Total comprehension (loss)/income for the year attributable to:			
Owners of the Company		**(7,771)**	4,380
Non-controlling interest		**73**	945
		(7,698)	5,325
		RMB cents	RMB cents
(Loss)/earnings per share			
Basic and diluted	11	**(2.59)**	1.46

The notes on pages 52 to 109 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	13	**14,536**	15,873
Leasehold land held for own use under an operating lease	14	**1,474**	1,512
Pledged bank deposits	15	**113**	113
Deferred tax assets	22(b)	**361**	470
		16,484	17,968
Current assets			
Inventories	16	**3,270**	3,982
Property held for sale	17	**1,468**	–
Trade and other receivables	18	**44,487**	32,522
Pledged bank deposits	15	**400**	–
Cash and cash equivalents	19	**3,858**	14,716
		53,483	51,220
Current liabilities			
Trade and other payables	20	**21,869**	11,407
Bank borrowings	21	**20,000**	20,000
Amount due to a shareholder	27(b)(i)	**2,714**	–
Distributions payable to a former non-controlling shareholder of a subsidiary	27(b)(i)	**–**	756
Income tax payable	22(a)	**1,758**	2,235
		46,341	34,398
Net current assets		**7,142**	16,822
Total assets less current liabilities		**23,626**	34,790
Non-current liabilities			
Deferred tax liabilities	22(c)	**1,812**	1,169
		1,812	1,169
NET ASSETS		**21,814**	33,621

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	**2016** **RMB'000**	2015 RMB'000
CAPITAL AND RESERVES			
Share capital	24(a)	**–**	–
Reserves		**21,814**	29,796
Total equity attributable to owners of the Company		**21,814**	29,796
Non-controlling interest	25	**–**	3,825
TOTAL EQUITY		**21,814**	33,621

Approved and authorised for issue by the Board of Directors of the Company on 24 March 2017.

Jiang Guitang
Director

Cheng Dong
Director

The notes on pages 52 to 109 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company							
	Share capital	**Capital reserve**	**Share-based payment reserve**	**Statutory reserve**	**Retained profits**	**Total**	**Non-controlling interest**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24(a))	(Note 24(b))	(Note 24(c))	(Note24(d))			(Note 25)	
At 1 January 2015	–	9,557	–	2,128	13,731	25,416	4,636	30,052
Profit and total comprehensive income for the year	–	–	–	–	4,380	4,380	945	5,325
Distributions to a former non-controlling shareholder of a subsidiary	–	–	–	–	–	–	(1,756)	(1,756)
Transfer to statutory reserve	–	–	–	727	(727)	–	–	–
At 31 December 2015	–	9,557	–	2,855	17,384	29,796	3,825	33,621
At 1 January 2016	**–**	**9,557**	**–**	**2,855**	**17,384**	**29,796**	**3,825**	**33,621**
Loss and total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(7,771)**	**(7,771)**	**73**	**(7,698)**
Issuance of shares	**–**	**12,584**	**–**	**–**	**–**	**12,584**	**–**	**12,584**
Repurchase of shares for cancellation	**–**	**(12,584)**	**–**	**–**	**–**	**(12,584)**	**–**	**(12,584)**
Acquisition of non-controlling interest	**–**	**–**	**–**	**–**	**(544)**	**(544)**	**(3,898)**	**(4,442)**
Equity-settled share-based payments	**–**	**–**	**333**	**–**	**–**	**333**	**–**	**333**
Transfer to statutory reserve	**–**	**–**	**–**	**403**	**(403)**	**–**	**–**	**–**
At 31 December 2016	**–**	**9,557**	**333**	**3,258**	**8,666**	**21,814**	**–**	**21,814**

The notes on pages 52 to 109 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
(Loss)/profit before taxation		**(3,811)**	8,087
Adjustments for:			
– Depreciation of property, plant and equipment		**1,821**	1,802
– Amortisation of interest in leasehold land held for own use under an operating lease		**38**	38
– (Reversal of impairment loss)/impairment loss on trade and bills receivables		**(436)**	770
– Finance costs		**1,127**	2,447
– Interest income		**(19)**	(1,055)
– Equity-settled share-based payments		**333**	–
Operating cash flows before changes in working capital		**(947)**	12,089
Changes in working capital			
Decrease in inventories		**712**	2,274
Increase in trade and other receivables		**(8,221)**	(4,828)
Decrease in amounts due from related companies		**–**	13,269
Increase in pledged bank deposits (non-current)		**–**	(113)
Increase in pledged bank deposits (current)		**(400)**	–
Decrease in amounts due from related parties		**–**	8,494
Increase/(decrease) in trade and other payables		**10,462**	(1,591)
Cash generated from operations		**1,606**	29,594
Income taxes paid		**(3,612)**	(2,348)
Net cash (used in)/generated from operating activities		**(2,006)**	27,246
Investing activities			
Payments for the purchase of property, plant and equipment		**(484)**	(716)
Interest received		**19**	1,055
Net cash (used in)/generated from investing activities		**(465)**	339
Financing activities			
Proceeds from new bank loans		**20,000**	20,000
Repayment of bank loans		**(20,000)**	(40,000)
Increase in amount due to a related company		**2,714**	–
Decrease in current pledged bank deposits		**–**	10,000
Interest paid		**(1,127)**	(2,447)
Distributions paid to a former non-controlling shareholder of a subsidiary	10(b)	**(756)**	(1,000)
Acquisition of non-controlling interest		**(4,442)**	–
Payments for initial public offering expenses		**(4,776)**	–
Net cash used in financing activities		**(8,387)**	(13,447)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Net (decrease)/increase in cash and cash equivalents		**(10,858)**	14,138
Cash and cash equivalents at 1 January		**14,716**	578
Cash and cash equivalents at 31 December	19	**3,858**	14,716

The notes on pages 52 to 109 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL INFORMATION

MEIGU Technology Holding Group Limited (the "Company") 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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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, the 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 (together, the "Group") are principally engaged in the research and development, production and sales of fibreglass reinforced plastic products in the PRC. During the year, the principal business of the Group 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. REORGANISATION

Pursuant to the reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Growth Enterprise Market of the Stock Exchange, the Company has held all issued capital of the subsidiaries now comprising the Group since 16 March 2016. The major steps undertaken to effect the Reorganisation were set out below.

Prosperous Composite Material Co., Ltd. ("Prosperous Composite") was incorporated on 7 November 2006 in the British Virgin Islands (the "BVI") with limited liability. During the year up to 25 February 2016, Prosperous Composite had 50,000 shares of USD1 each in issue which were held as to 51% and 49% by Mr. Shen Weixing ("Mr. Shen") and Mr. Jiang Guitang ("Mr. Jiang"), respectively. On 25 February 2016, pursuant to a subscription agreement dated 29 January 2016 (the "Subscription Agreement"), additional 12,750 and 12,250 new shares of Prosperous Composite at USD1 each, were issued to Mr. Shen and Mr. Jiang at par, respectively, by capitalisation of its reserves and simultaneously, additional 25,000 new shares of Prosperous Composite of USD1 each were issued to Frankly Smart Group Limited ("Frankly Smart"), a company incorporated in the BVI, at a consideration of HK$15,000,000 (equivalent to approximately RMB12,584,000). Upon the completion of the subscription on 25 February 2016, Prosperous Composite was owned as to 38.25%, 36.75% and 25% by Mr. Shen, Mr. Jiang and Frankly Smart, respectively.

Prosperous Composite is an investment holding company which owned 85.37% equity interests of Nantong Meigu during the year up to 14 March 2016. On 14 March 2016, pursuant to an equity transfer agreement dated 24 January 2016, Prosperous Composite acquired the remaining 14.63% equity interests of Nantong Meigu from Nantong Jianke Engineering and Technology Service Centre ("Nantong Jianke"), the non-controlling shareholder of Nantong Meigu, at a consideration of USD681,075 (equivalent to approximately RMB4,442,000). Nantong Meigu has become a direct wholly-owned subsidiary of Prosperous Composite since 14 March 2016.

2. REORGANISATION *(Continued)*

The Company was incorporated on 13 January 2016. The Company has no business activities and transactions prior to 16 March 2016. On 16 March 2016, the Company acquired the entire issued share capital of Prosperous Composite through a share swap arrangement under which the Company allotted and issued 341, 409 and 250 shares of HK$0.01 each to Munsing Developments Limited ("Munsing"), a company incorporated in the BVI and wholly-owned by Mr. Shen, Singa Dragon International Ventures Limited ("Singa"), a company incorporated in the BVI and wholly-owned by Mr. Jiang, and Frankly Smart, respectively. Immediately before the share swap arrangement on 16 March 2016, Mr. Shen and Mr. Jiang entered into an undertaking agreement, as confirmed by a confirmatory deed dated 3 June 2016, pursuant to which, Mr. Shen agreed to transfer his then 4.15% equity interests in the Group, in the share swap arrangement, to Mr. Jiang who, as a key management personnel and founder of the Group, has provided an irrevocable undertaking to Mr. Shen that Mr. Jiang shall continue to engage as a key management personnel of the Group for the coming 5 years and shall not terminate the engagement with the Group before 16 March 2021. Upon the completion of share swap arrangement on 16 March 2016, Prosperous Composite and Nantong Meigu have become a directly and an indirectly wholly-owned subsidiary of the Company, respectively, and the issued capital of the Company were held as to 34.1%, 40.9% and 25% by Munsing, Singa and Frankly Smart, respectively. On 20 April 2016, Frankly Smart (as vendor), the Company (as purchaser) and Mr. Huei (as warrantor who owns and controls Frankly Smart) entered into a sale and purchase agreement, pursuant to which, the Company repurchased its 250 shares from Frankly Smart at a consideration of HK$15,000,000, which was same as the investment cost of Frankly Smart in the Group. On the same date, all these repurchased 250 shares were cancelled by the Company and of the cost of shares repurchased of HK$15,000,000, HK$2.50 (approximately RMB2.1) and HK$14,999,997.50 (approximately RMB12,584,000) were debited to share capital and capital reserve of the Group, respectively.

Since 20 April 2016, after the aforesaid share repurchase and cancellation, and up to the end of the reporting period, the Company is owned as to approximately 45.47% and 54.53% by Munsing (wholly-owned by Mr. Shen) and Singa (wholly-owned by Mr. Jiang), respectively.

As a result of the Reorganisation and since 16 March 2016, the Company has become the holding company of the subsidiaries now comprising the Group.

As all the entities of the Group, being the Company, Prosperous Composite and Nantong Meigu, are ultimately controlled by the same group of individuals, being Mr. Shen and Mr. Jiang, before and after the Reorganisation, the consolidated financial statements are prepared as if Prosperous Composite and Nantong Meigu had been subsidiaries of the Company, to the extent of their beneficial interests held by Mr. Shen and Mr. Jiang, throughout the reporting period on the basis as set out in notes 3(c) and 3(d)(ii) to the consolidated financial statements and in accordance with the principles of Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. REORGANISATION *(Continued)*

The particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation	Principal activities and place of operation	Particulars of issued and paid up capital	Effective interest held by the Company
Direct interests:				
Prosperous Composite	The BVI/7 November 2006/Limited liability company	Investment holding	US$50,000 up to 24 February 2016; US$100,000 since 25 February 2016	100%
Indirect interests:				
Nantong Meigu	The PRC/24 April 2003/Wholly foreign-owned enterprise	Research and development, production and sales of fibreglass reinforced plastic products in the PRC	US$1,500,000	100%

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong and requirements of Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued a number of amendments to HKFRSs which are first 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group").

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 the Company, Prosperous Composite and Nantong Meigu for which Nantong Meigu is the key operating entity within the Group. These financial statements are presented in RMB and the figures are, rounded to the nearest thousand unit 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 consolidated financial statements is the historical cost basis.

The preparation of the consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 29.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Incomes Taxes* and HKAS 19 *Employee Benefits* respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d)(i) Business combinations *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(d)(ii) Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses (see note 3(g)(ii)):

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– buildings situated on leasehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.

–	Plant and equipment	5 to 10 years
–	Moulds	10 years
–	Furniture and fixtures	3 to 5 years
–	Motor vehicles	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

For trade receivables and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired:

– property, plant and equipment; and

– leasehold land held for own use under operating lease.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior year. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Property held for sale

Property held for sale are stated at the lower of cost and net realisable value. The cost includes the cost of acquisition and other direct costs attributable to such property. Net realisable value is determined by reference to fair value less cost of disposal.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pursuant to the relevant laws and regulations of the PRC, the Group's subsidiary in the PRC has joined defined contributions plans for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(iii) Share-based payments

The fair value of shares or share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the appropriate valuation techniques, taking into account the terms and conditions upon which the shares or share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares or share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the shares or share options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax loses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 3(p)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 3(p)(ii).

(ii) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue recognition *(Continued)*

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(r) Translation of foreign currencies

Foreign currency transactions during the reporting period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies: (Continued)

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to Nantong Meigu's directors (i.e. the chief operating decision maker) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

4. REVENUE

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

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

	2016 **RMB'000**	2015 RMB'000
Sales of fibreglass reinforced plastic products		
– fibreglass reinforced plastic grating	**48,126**	43,978
– United States Coast Guard approved phenolic grating	**9,677**	6,531
– epoxy wedge strip	**5,408**	2,425
– composite subway evacuation platform	**67**	3,471
	63,278	56,405

5. OTHER REVENUE AND OTHER NET INCOME

	2016 **RMB'000**	2015 RMB'000
Other revenue		
Interest income on bank deposits	**19**	460
Interest income on amounts due from related companies	**–**	595
Total interest income on financial assets not at fair value through profit or loss	**19**	1,055
Government grants and other subsidies	**93**	41
	112	1,096
Other net income		
Net foreign exchange gain	**604**	657
Reversal of impairment loss on trade and bills receivables (Note 18(b))	**436**	–
	1,040	657

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting) the following:

	2016 RMB'000	2015 RMB'000
(a) Finance costs		
Interest on bank borrowings	**1,127**	2,447
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**8,386**	8,512
Contributions to defined contribution retirement plans	**1,566**	461
Equity-settled share-based payments	**333**	–
	10,285	8,973
(c) Other items		
Amortisation for leasehold land (Note 14)	**38**	38
(Reversal of impairment loss)/impairment loss on trade and bills receivables (Note 18(b))	**(436)**	770
Depreciation for property, plant and equipment (Note 13)	**1,821**	1,802
Cost of inventories recognised as expense (note (i))	**38,942**	35,141
Auditor's remuneration:		
– auditor of the Company	**724**	–
– other auditors (note (ii))	**19**	20
Listing expenses:		
– reporting accountant	**2,215**	415
– other professional parties	**12,167**	162
	14,382	577
Research and development costs (note (iii))	**2,537**	2,377

Notes:

(i) Cost of inventories recognised as expenses include RMB4,894,000 (2015: RMB5,437,000) relating to staff costs, and RMB1,029,000 (2015: RMB1,087,000) relating to depreciation for property, plant and equipment, for the year ended 31 December 2016, which amounts are also included in the total amount disclosed separately above for each of these types of expenses.

(ii) The amounts represent remunerations paid and payable to the PRC auditors of Nantong Meigu for statutory audit service.

(iii) Included in the research and development costs are staff cost of RMB666,000 (2015: RMB582,000) and costs of materials consumed of RMB1,426,000 (2015: RMB1,440,000) which amounts are also included in the total amount separately disclosed for each of these types of expenses.

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

(a) Income tax recognised in profit or loss:

	2016 RMB'000	2015 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary		
– current year	**2,858**	2,395
– under-provision in prior years	**277**	–
	3,135	2,395
Deferred tax		
Origination and reversal of temporary differences in respect of		
– Reversal of impairment loss/(provision for impairment loss) on trade and bills receivable (note 22(b))	**109**	(192)
– withholding tax on distributable profits of the Group's PRC subsidiary (note 22(c))	**643**	559
	752	367
	3,887	2,762

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

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

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

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

	2016 RMB'000	2015 RMB'000
(Loss)/profit before taxation	(3,811)	8,087
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (loss)/profit in the tax jurisdictions concerned	2,910	2,166
Under-provision in prior years	277	–
Tax effect of non-deductible expenses	57	37
Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiary	643	559
Actual tax expense	3,887	2,762

8. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVES

Emoluments of directors of the Group, disclosed pursuant to the GEM Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Company (Disclosure of Information about Benefits of Directors) Regulation, and the emoluments of chief executives of the Group for the year, both of which were included in staff costs as disclosed in note 6(b), are as follows:

	Fees	Basic salaries, allowances and other benefits	Bonus	Employer's contributions to defined contribution scheme	Share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2016						
Executive directors and chief executives						
Shen Qixian*#	**–**	**144**	**–**	**–**	**–**	**144**
Lin Guangquan*	**–**	**–**	**–**	**–**	**–**	**–**
Jiang Guitang*#	**–**	**210**	**–**	**52**	**333**	**595**
Cheng Dong#	**–**	**354**	**–**	**28**	**–**	**382**
Shi Hongmei* (resigned on 24 January 2016)	**–**	**–**	**–**	**–**	**–**	**–**
Shi Dongying#	**–**	**111**	**–**	**25**	**–**	**136**
	–	**819**	**–**	**105**	**333**	**1,257**
Independent non-executive directors						
Huang Xin^	**–**	**–**	**–**	**–**	**–**	**–**
Tam Tak Kei Raymond^	**–**	**–**	**–**	**–**	**–**	**–**
Ng Sai Leung^	**–**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**	**–**
Total	**–**	**819**	**–**	**105**	**333**	**1,257**
2015						
Executive directors and chief executives						
Shen Qixian*#	–	102	–	–	–	102
Lin Guangquan*	–	–	–	–	–	–
Jiang Guitang*#	–	62	–	3	–	65
Shi Hongmei*	–	48	–	–	–	48
	–	212	–	3	–	215

* These are the directors of Nantong Meigu, the key operating entity of the Group during both years.

8. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVES *(Continued)*

\# Jiang Guitang and Cheng Dong were appointed as executive directors of the Company on 16 March 2016. Shen Qixian was appointed as non-executive director of the Company on 16 March 2016 and resigned on 23 June 2016. Shi Dongying, who joined the Group in October 2015, was appointed as an executive director of the Company on 6 May 2016.

Jiang Guitang is the chief executive officer of the Group for both years.

Shen Qixian is the legal representative and a director of Nantong Meigu, the key operating entity of the Group during both years, and he is regarded as a chief executive of the Group.

^ Huang Xin, Tam Tak Kei Raymond and Ng Sai Leung were appointed as independent non-executive directors of the Company on 16 December 2016 and none of them received any emolument from the Group during both years.

During the year, no emoluments were paid by the Group to any of the directors of the Company or the chief executive of the Group or the five highest paid individuals (see note 9 below) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the chief executive of the Group or the five highest paid individuals (see note 9 below) waived any emoluments during both years.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2015: Nil) are directors, Cheng Dong, whose emoluments, after the appointment date of 16 March 2016, and Jiang Guitang, whose emoluments for the year ended 31 December 2016, are disclosed in note 8. The aggregate of the emoluments in respect of the director, Cheng Dong, before 16 March 2016 and other three (2015: four) individuals were as follows:

	2016 **RMB'000**	2015 RMB'000
Basic salaries, allowances and other benefits	**1,427**	1,295
Employer's contributions to defined contribution retirement schemes	**114**	46
	1,541	1,341

The emoluments of the five individuals with the highest emoluments are within nil to HK$1,000,000 band.

10. DISTRIBUTIONS

Distributions declared and approved, paid or payable to a non-controlling shareholder of Nantong Meigu, during the year

	2016	2015
	RMB'000	RMB'000
Final dividend declared and approved in respect of the previous financial year:		
– paid during the year	**–**	1,000
– payable at end of the year	**–**	756
	–	1,756

11. (LOSS)/EARNINGS PER SHARE

As of 31 December 2016, the Company had 750 ordinary shares in issue. On 13 January 2017, the Company was listed on the Growth Enterprise Market of the Stock Exchange by way of placing of 100,000,000 new shares and capitalisation issue of 299,999,250 new shares, resulting in 400,000,000 ordinary shares in issue (notes 32(a) and (b) below). The calculation of the basic (loss)/earnings per share for each of the years ended 31 December 2015 and 2016 is based on the following data:

	2016	2015
	RMB'000	RMB'000
(Loss)/earnings for the purpose of basic (loss)/earnings per share		
(Loss)/profit for the year attributable to the owners of the Company	**(7,771)**	4,380
	'000	'000
Number of shares		
Number of shares for the purpose of basic (loss)/earnings per share	**300,000**	300,000

Basic loss per share for the year ended 31 December 2016 amounted to 2.59 RMB cent (2015: basic earnings per share of 1.46 RMB cent) per share. The number of ordinary shares for the purpose of calculating basic loss/earnings per share has been retrospectively adjusted for the capitalisation issue of the shares of the Company completed on 12 January 2017 (note 32(b)) and assuming the Reorganisation had been effective on 1 January 2014.

No diluted loss/earnings per share was presented as there was no potential ordinary shares outstanding during both years.

12. 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 fibreglass 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.

	2016	2015
	RMB'000	RMB'000
Local customers		
The PRC (excluding Hong Kong)	**38,058**	29,273
Foreign customers		
The United States of America	**13,549**	17,315
The United Kingdom	**9,422**	6,953
France	**955**	301
Canada	**101**	473
Germany	**128**	226
Others	**1,065**	1,864
	25,220	27,132
	63,278	56,405

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

(b) Information about major customers

Information about revenue from the Group's major customers individually contributing 10% or more of total revenue of the Group is as follows:

	2016	2015
	RMB'000	RMB'000
Customer A	**N/A***	6,086
Customer B	**N/A***	6,230

N/A Not applicable
* The transactions with these customers did not contribute 10% or more of the total revenue of the Group during the year ended 31 December 2016.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture and fixtures RMB'000	Plant and equipment (including moulds) RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:					
At 1 January 2015	14,144	447	12,193	329	27,113
Additions	–	3	264	449	716
At 31 December 2015	14,144	450	12,457	778	27,829
At 1 January 2016	14,144	450	12,457	778	27,829
Additions	–	–	477	7	484
Reallocation	(38)	–	38	–	–
At 31 December 2016	**14,106**	**450**	**12,972**	**785**	**28,313**
Accumulated depreciation:					
At 1 January 2015	3,500	388	6,140	126	10,154
Charge for the year	636	4	1,013	149	1,802
At 31 December 2015	4,136	392	7,153	275	11,956
At 1 January 2016	**4,136**	**392**	**7,153**	**275**	**11,956**
Charge for the year	**635**	**5**	**1,005**	**176**	**1,821**
At 31 December 2016	**4,771**	**397**	**8,158**	**451**	**13,777**
Carrying amounts:					
At 31 December 2016	**9,335**	**53**	**4,814**	**334**	**14,536**
At 31 December 2015	10,008	58	5,304	503	15,873

All the buildings are situated in the PRC and erected on the leasehold land, as referred to Note 14 below, at the end of both reporting periods.

As at 31 December 2016, the carrying amount of buildings pledged for a bank borrowing (note 21(b)) of the Group was RMB9,335,000 (2015: RMB8,860,000). Included in the carrying amount of plant and equipment is an amount of RMB1,985,000 (2015: RMB2,383,000) for moulds whose costs of RMB6,891,000 (2015: RMB6,785,000) are depreciated on a straight line basis over their estimated useful lives of 10 years (note 3(e)). The depreciation policies for the other property, plant and equipment are also disclosed in note 3(e).

At the end of both reporting periods, there were no impairment of property, plant and equipment.

14. LEASEHOLD LAND HELD FOR OWN USE UNDER AN OPERATING LEASE

	2016 RMB'000	2015 RMB'000
Cost		
At 1 January and 31 December	**1,890**	1,890
Accumulated amortisation		
At 1 January	**340**	302
Amortisation charged for the year	**38**	38
At 31 December	**378**	340
Carrying amount		
At 31 December	**1,512**	1,550
Analysed for reporting purposes as:		
Current assets	**38**	38
Non-current assets	**1,474**	1,512
	1,512	1,550

All the leasehold land are situated in the PRC and held under medium-term leases and there were no impairment on these leasehold land at the end of both reporting periods.

As at 31 December 2016, the carrying amount of leasehold land pledged for a bank borrowing (note 21(b)) of the Group was RMB1,512,000 (2015: RMB1,550,000).

15. PLEDGED BANK DEPOSITS

As at 31 December 2016, deposits of RMB513,000 (2015: RMB113,000) were placed in the accounts of a bank pledged in favour of customers in relation to certain sales transactions. According to the agreements made between the Group and the customers, pledged deposits of RMB400,000 (2015: Nil) and RMB113,000 (2015: RMB113,000) will be released on 28 June 2017 and 7 January 2018, respectively, and accordingly, RMB400,000 (2015: Nil) and RMB113,000 (2015: RMB113,000) were classified under current assets and non-current assets, respectively, as at 31 December 2016.

16. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**1,809**	2,133
Work in progress	**892**	1,152
Finished goods	**569**	697
	3,270	3,982

17. PROPERTY HELD FOR SALE

	2016 RMB'000	2015 RMB'000
Property held for sale at cost, in the PRC		
– amount of trade receivable settled in lieu of payment	**1,337**	–
– other incidental transaction costs	**131**	–
	1,468	–

As further detailed in note 18(c), on 14 January 2016, a residential property located in Chengdu, the Sichuan Province, the PRC was assigned by a customer to the Group in lieu of payment of an overdue trade receivable amounted to RMB1,337,000. According to a valuation report issued by APAC Asset Valuation and Consulting Limited, an independent firm of professional valuers with recognised qualifications and experiences in valuing similar properties, using the direct comparison approach, the fair value of the property held for sale was RMB1,600,000 as at 31 December 2016. In the opinion of the directors of the Company, the estimated net realisable value of the property held for sale exceeded its carrying amount and accordingly, no impairment on the property held for sale was considered necessary as at 31 December 2016.

Particulars of the property held for sale are set out below:

Location	**Existing use**	**Term of lease**
Unit 05, L14, Xingshun Huayuan, No. 2 Xinghui East Road, Jinniu District, Chengdu, the Sichuan Province, the PRC	Residential	Till 2069

18. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**38,076**	31,331
Less: allowance for doubtful debts	**(1,445)**	(1,881)
	36,631	29,450
Bills receivables	**1,964**	1,985
Trade and bills receivables, net (notes (a), (b) and (c) below)	**38,595**	31,435
Other receivables	**775**	747
Prepayments and deposits (note (d) below)	**5,079**	302
Current portion of leasehold land held for own use under an operating lease (note 14)	**38**	38
	44,487	32,522

18. TRADE AND OTHER RECEIVABLES *(Continued)*

All of the trade and other receivables are expected to be recovered and or recognised as expenses within one year or repayment on demand.

(a) Ageing analysis

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

	2016	2015
	RMB'000	RMB'000
0 – 30 days	**10,311**	6,498
31 – 90 days	**13,547**	11,530
91 – 180 days	**6,983**	4,099
181 – 365 days	**4,919**	4,613
Over 365 days	**2,835**	4,695
	38,595	31,435

The Group generally granted credit terms to its customers ranging from cash on delivery to 180 days after invoice date. As at 31 December 2016, included in the above trade and bills receivables are retention monies of RMB9,024,000 (2015: RMB7,192,000) which are not yet due at the end of the reporting period, but will be due within next year for payments from customers upon the expiry of warranty periods after the date of the customers' acceptance of delivery of goods by the Group. Further details on the Group's credit policy are set out in note 26(a).

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 3(g)(i)).

Movements in the allowance for doubtful debts

	2016	2015
	RMB'000	RMB'000
At 1 January	**1,881**	1,111
(Reversal of impairment loss)/impairment loss recognised	**(436)**	770
At 31 December	**1,445**	1,881

As at 31 December 2016, trade receivables of the Group amounting to RMB1,445,000 (2015: RMB1,881,000) was determined to be impaired. The impaired receivables were outstanding for over 180 days at the end of the reporting period or were due from customers with financial difficulties. Accordingly, reversal for doubtful debts of RMB436,000 (2015: specific allowances for doubtful debts of RMB770,000) was recognised for the year ended 31 December 2016.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**35,602**	28,534
Past due but not impaired		
Less than 1 month past due	**1,135**	291
1 to 3 months past due	**637**	30
Over 3 months and less than 1 year past due	**390**	821
More than 1 year past due	**531**	1,759
	2,993	2,901
	38,595	31,435

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have good track records of settlement with the Group. Based on past experience, financial capabilities of the customers and the subsequent settlements received from the customers, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality or possible default in payment, and the balances are still considered fully recoverable.

On 14 January 2016, in settlement of an overdue trade receivable of RMB1,337,000, a residential property located in Chengdu, the Sichuan Province, the PRC was assigned by the relevant customer to the Group in lieu of payment (see Note 17 above). Since the property assigned to the Group was estimated to have a value greater than the balance of overdue trade receivable of RMB1,337,000 due from the relevant customer at the time of settlement, no impairment is considered necessary as at 31 December 2015.

(d) As at 31 December 2016, included in prepayments and deposits are prepaid listing expenses of RMB4,968,000 (2015: RMB192,000), which had subsequently been charged to share premium account of the Company as deduction against the proceeds raised from placing of 100,000,000 new shares of HK$0.01 each of the Company at HK$0.35 per placing share in connection with the initial listing of the Company's shares as further disclosed in note 32(a) to the consolidated financial statements.

19. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash at bank	**3,854**	14,713
Cash on hand	**4**	3
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**3,858**	14,716

20. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**10,084**	8,701
Other payables	**11,785**	2,706
	21,869	11,407

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

	2016 RMB'000	2015 RMB'000
0 – 30 days	**3,335**	1,406
31 – 90 days	**3,765**	3,450
91 – 180 days	**1,597**	2,834
Over 180 days	**1,387**	1,011
	10,084	8,701

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

21. BANK BORROWINGS

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

	2016 RMB'000	2015 RMB'000
Fixed rate term loans from banks due for repayment within 1 year or repayable on demand (note (a))		
Secured (note (b))	**10,000**	10,000
Unsecured (note (c))	**10,000**	10,000
	20,000	20,000

Notes:

(a) All the bank borrowings as at 31 December 2015 were guaranteed by Mr. Shen Qixian, being the father of Mr. Shen and a director of Nantong Meigu, and Mr. Jiang, being a director of the Company, Prosperous Composite and Nantong Meigu, and their respective spouses, as referred to in note 27(b)(i)(3). All these guarantees were released during the year ended 31 December 2016 when the underlying bank borrowings were fully repaid. The new bank borrowings at 31 December 2016 were not guaranteed by any of related parties.

(b) As at 31 December 2016 and 2015, the bank borrowings were secured by buildings (note 13) and a leasehold land (note 14) of the Group.

(c) The unsecured bank borrowings were guaranteed by an independent third party guarantee company in the PRC.

22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	2016 RMB'000	2015 RMB'000
Current year		
PRC EIT	**1,758**	1,211
PRC EIT on distributed profits from the Group's PRC subsidiary (note 22(c))	**–**	1,024
	1,758	2,235

22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Temporary differences in respect of provisions for impairment loss on trade receivables RMB'000
At 1 January 2015	278
Credited to consolidated profit or loss (note 7(a))	192
At 31 December 2015 and 1 January 2016	470
Charged to consolidated profit or loss (note 7(a))	(109)
At 31 December 2016	**361**

(c) Deferred tax liabilities

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Temporary differences in respect of distributable profits from PRC subsidiary RMB'000
At 1 January 2015	1,634
Charged to consolidated profit or loss (note 7(a))	559
Transferred to current tax payable (note 22(a))	(1,024)
At 31 December 2015 and 1 January 2016	1,169
Charged to consolidated profit or loss (note 7(a))	643
At 31 December 2016	**1,812**

22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(c) Deferred tax liabilities *(Continued)*

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared to non-resident shareholders in respect of profits earned by the PRC subsidiary from 1 January 2008 onwards.

Deferred tax charges of RMB643,000 (2015: RMB559,000) has been recognised for the year ended 31 December 2016, representing 10% withholding tax on profits distributable to Prosperous Composite, a non-resident shareholder of Nantong Meigu. Upon the declaration of dividends on 10 September 2015, deferred tax liabilities of RMB1,024,000 were transferred to current tax payable for the year ended 31 December 2015.

(d) Deferred tax assets and liabilities not recognised

There were no significant unrecognised deferred tax assets or liabilities of the Group as at 31 December 2016 and 2015.

23. EMPLOYEE RETIREMENT BENEFITS

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total expenses recognised in consolidated profit or loss of RMB1,566,000 (2015: RMB461,000) for year ended 31 December 2016, represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

24. CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of changes in the Company's individual components of reserves between the beginning and the end of the reporting period are set out in note 30(c).

(a) Share capital

The Company was incorporated in the Cayman Islands on 13 January 2016 as an exempted company with limited liability with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On the same date, 1 nil-paid share of HK$0.01 was issued by the Company to its then subscriber which was immediately transferred to Munsing, wholly-owned by Mr. Shen. Upon the completion of the share swap arrangement on 16 March 2016 as further detailed in note 2, the Company was owned as to 34.1%, 40.9% and 25% by Munsing, Singa and Frankly Smart, respectively. On 20 April 2016, Frankly Smart (as vendor), the Company (as purchaser) and Mr. Huei (as warrantor who owns and controls Frankly Smart) entered into a sale and purchase agreement, pursuant to which, the Company repurchased all the 250 shares held by Frankly Smart at a consideration of HK$15,000,000. On the same date, all these repurchased 250 shares were cancelled by the Company. Since 20 April 2016, following the aforesaid share repurchase and cancellation, and at 31 December 2016, the Company was owned as to approximately 45.47% and 54.53% by Munsing (wholly-owned by Mr. Shen) and Singa (wholly-owned by Mr. Jiang) respectively.

Subsequent to 31 December 2016 and on 12 January 2017, the Company issued 100,000,000 new shares of HK$0.01 each by way of placing at the placing price of HK$0.35 per share, and 136,399,659 and 163,599,591 new shares of HK$0.01 each of the Company were issued to Munsing (wholly-owned by Mr. Shen) and Singa (wholly-owned by Mr. Jiang), respectively, by way of capitalisation of an aggregated amount of approximately RMB2,714,000 (equivalent HK$2,999,925.50) out of the share premium account of the Company, in connection with the initial listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange on 13 January 2017, as further detailed in notes 32(a) and (b) below.

The owners of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares of the Company in issue rank equally with regard to the Company's residual assets.

24. CAPITAL AND RESERVES *(Continued)*

(b) Capital reserve

At 31 December 2015, the Group's capital reserve represented the Company's beneficial owners' contributions for 85.37% of the registered capital of Nantong Meigu which has become, pursuant to the Reorganisation, an indirect and wholly-owned subsidiary of the Company since 16 March 2016. On the basis as set out in notes 2 and 3(d)(ii) to the consolidated financial statements, Prosperous Composite has been regarded as a direct and wholly-owned subsidiary of the Company throughout the year, and Nantong Meigu has regarded as an indirect and 85.37% owned subsidiary of the Company during the year up to 14 March 2016, and a wholly-owned subsidiary of the Company since 14 March 2016. The remaining 14.63% equity interest of Nantong Meigu, which was held by a non-controlling shareholder of Nantong Meigu, has been classified as and included under non-controlling interests during the year up to 14 March 2016.

(c) Share-based payment reserve

As disclosed in Note 2, on 16 March 2016 and immediately after share swap arrangement made between the Company and the then shareholders of Prosperous Composite, Mr. Shen's equity interest in the Group (now comprising the Company, Prosperous Composite and Nantong Meigu) was decreased by 4.15% (which was subsequently enlarged to 5.53% after the share cancellation of 250 repurchased shares on 20 April 2016 as disclosed in note 2), which was effectively transferred to Mr. Jiang (the "Share Award"), based on an undertaking agreement made between Mr. Shen and Mr. Jiang (the "Share Award Agreement") as confirmed in writing by a confirmatory deed dated 3 June 2016, in which, Mr. Jiang, as a key management personnel and a founder of the Group, has provided an irrevocable promise to Mr. Shen that Mr. Jiang shall continue to engage in the management of the Group for coming 5 years and shall not terminate the engagement with the Group before 16 March 2021. The fair value of the Share Award at 31 March 2016 was RMB2,000,000 based on a professional valuation report issued by APAC Asset Valuation and Consulting Limited on 2 June 2016, under the market approach, using the price to earnings ("P/E") and enterprise value to EBITDA ("EV/EBITDA") multiples of comparable listed companies and after making adjustments for the discount of 20% for lack of marketability and size discount of 15% to reflect the specific risks of the Company. The directors of the Company considered that there would be no material difference for the fair value of the Share Award between the grant date on 16 March 2016 and valuation date on 31 March 2016. The fair value of the Share Award at the grant date shall be amortised, recognised and charged as expense to the consolidated profit or loss, on a straight-line basis, over a period of 5 years, which will be regarded as a contribution by a shareholder of the Company.

For the year ended 31 December 2016, the share-based payments amortised, recognised and charged as expense to the consolidated profit or loss of the Group amounted to RMB333,000 (2015: Nil), for which the same amounts were credited as a contribution from a shareholder of the Company in the consolidated and Company statement of changes in equity for the year.

24. CAPITAL AND RESERVES *(Continued)*

(d) Statutory reserve

Pursuant to applicable PRC regulations, the PRC subsidiary in the Group is required to appropriate 10% of its profit after tax to the statutory reserve until such reserve reaches 50% of their registered capital. Transfers to this reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(e) Distributability of reserves

At 31 December 2016, the aggregated amount of reserves available for distribution to owners of the Group, as calculated under the provisions of the Companies Law of the Cayman Islands, was RMB18,223,000 (2015: RMB26,941,000).

(f) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less relevant pledged bank deposits, and cash and cash equivalents.

Total capital is calculated as total equity attributable to owners of the Company as shown in the consolidated statement of financial position plus net debt. The Group is not subject to any externally imposed capital requirements.

The gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 **RMB'000**	2015 RMB'000
Total borrowings (note 21)	**20,000**	20,000
Less: Cash and cash equivalents (note 19)	**(3,858)**	(14,716)
Net debt	**16,142**	5,284
Total equity attributable to owners of the Company	**21,814**	29,796
Total capital	**37,956**	35,080
Gearing ratio	**43%**	15%

25. NON-CONTROLLING INTERESTS

The following table lists out the information of Nantong Meigu, the subsidiary of the Group which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination. All the interests, being 14.63% equity in Nantong Meigu, held by NCI were acquired by the Group on 14 March 2016, and since then, Nantong Meigu has become a wholly-owned subsidiary of the Group and accordingly, no financial information for non-controlling interest was presented for the year ended 31 December 2016.

	2015 RMB'000
NCI percentage	14.63%
Current assets	51,242
Non-current assets	17,968
Current liabilities	(43,064)
Net assets	26,146
Carrying amount of NCI	3,825

	2015 RMB'000
Revenue	56,405
Profit for the year	6,460
Profit allocated to NCI	945
Total comprehensive income	6,460
Dividend paid to NCI	1,756
Cash flows generated from operating activities	27,359
Cash flows generated from investing activities	339
Cash flows used in financing activities	(13,560)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The financial instruments of the Group include (i) trade and other receivables (excluding prepayments and deposits) (Note 18), amounts due from related companies and related parties (Note 27(b)), pledged bank deposits (Note 15), cash and cash equivalents (Note 19), trade and other payables (Note 20), bank borrowings (Note 21) and distributions payable to a former non-controlling shareholder of a subsidiary (Note 27(b)(i)).

The Group have exposure to the credit risk, liquidity risk, interest rate risk and currency risk arising from financial instruments. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group's credit risk is primarily attributable to trade and bills receivables, cash and cash equivalents and pledged bank deposits. In order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition are performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade and bills receivables are usually due within 180 days from the date of billing. For debtors with balances past due, further credit would not be granted until all outstanding balances are settled. Normally, the Group does not obtain collateral from its customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2016, 16.14% and 40.39% (2015: 11.84% and 43.45%), of the total trade and bills receivables was due from the Group's largest debtor and the five largest debtors, respectively.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables are set out in note 18.

The Group's cash and cash equivalents and pledged bank deposits are placed with creditworthy banks with high credit ratings and the Group has limited exposure to any of these banks.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to each entity's board approval. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient amount of cash to meet its liquidity requirements in the short and longer term.

The following tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay.

	Total contractual undiscounted cash flows within 1 year RMB'000	**Carrying amounts** RMB'000
As at 31 December 2016		
Trade and other payables	**21,869**	**21,869**
Bank borrowings	**20,634**	**20,000**
Amount due to a related company	**2,714**	**2,714**
	45,217	**44,583**
As at 31 December 2015		
Trade and other payables	11,407	11,407
Bank borrowings	20,718	20,000
Distributions payable to a non-controlling shareholder of a subsidiary	756	756
	32,881	32,163

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings.

Interest rate risks are managed by the Group by maintaining an appropriate mix between fixed and variable rate borrowings.

Interest rate profile

The following table details the interest rate profile of the Group's interest bearing financial instruments at the end of each reporting period:

	2016		2015	
	Effective interest rates		Effective interest rates	
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings				
Bank borrowings	**5.22**	**20,000**	5.82	20,000

All of the bank borrowings which are fixed rate financial instruments are insensitive to any change in interest rates. A change in interest rate at the end of each reporting period would not affect profit or loss. Accordingly, no sensitivity analysis is presented by the Group.

(d) Currency risk

Exposure to currency risk

The Group is exposed to currency risk primarily through sales which give rise to receivables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars, which were attributable to sales transactions entered into by the Group with foreign customers.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

Exposure to currency risk (Continued)

The following table details the Group's exposure at the end of each reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of each reporting period.

	Exposure to foreign currency	
	2016	2015
	United States Dollars	United States Dollars
	RMB'000	RMB'000
Trade receivables	**6,861**	6,573
Cash and cash equivalents	**362**	21
Gross exposure arising from recognised assets and liabilities	**7,223**	6,594

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	**5%**	**271**	5%	247
	(5%)	**(271)**	(5%)	(247)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk (Continued)

Sensitivity analysis (Continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of each reporting period.

27. MATERIAL RELATED PARTY TRANSACTIONS

Mr. Shen and Mr. Jiang, who are the beneficial owners of the Group acting in concert in the management of the Group, are regarded as the ultimate controlling parties of the Group during the year and up to the date of approval of the consolidated financial statements.

The Group has entered into the following material related party transactions in the ordinary course of its business during the year:

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	**2,246**	1,507
Post-employment benefits	**219**	49
Equity-settled share-based payments	**333**	–
	2,798	1,556

27. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other related party balances and transactions

Saved as disclosed elsewhere in the consolidated financial statements, the Group has the following related party transactions:

(i) Balances with other related parties

	Note	**2016 RMB'000**	2015 RMB'000
Amount due to a shareholder – Munsing (wholly-owned by Mr. Shen)	(1)	**2,714**	–
Distributions payable to a non-controlling shareholders of a subsidiary – Nantong Jianke	(2)	**–**	756
Off-balance sheet items			
Guarantees from Mr. Shen Qixian and Mr. Jiang Guitang, the directors of the Company, and their close family members	(3)	**–**	20,000

Notes:

(1) The amount due to the related company was non-trade in nature, unsecured, interest-free and repayable on demand. The amount was fully repaid on 22 February 2017.

(2) Nantong Jianke held 14.63% equity interests in Nantong Meigu, a subsidiary of the Company, during the year up to 14 March 2016. The amount due to the related company was unsecured, interest-free and repayable within one year. The amount due to this related party was fully settled in 2016 and there was no balance due from this related party as at 31 December 2016.

(3) During the year ended 31 December 2015, guarantees have been given by Mr. Shen Qixian, being the father of Mr. Shen and a director of Nantong Meigu, and Mr. Jiang, being a director of the Company, Prosperous Composite and Nantong Meigu, and their respective spouses, to certain financial institutions in connection with bank borrowings granted to Nantong Meigu (note 21). The directors of the Company considered the fair value of guarantees received to be insignificant because the probability of default in repayment by Nantong Meigu was low. These guarantees were fully released during the year ended 31 December 2016 when the underlying bank borrowings were fully repaid.

27. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other related party balances and transactions *(Continued)*

(ii) Transactions with other related parties

	2016 **RMB'000**	2015 RMB'000
Interest received from a related company – Sichuan Rike	**–**	595

Note: Mr. Shen, a beneficial owner of the Company, has controlling beneficial interests in this company. As at 31 December 2014, an amount of RMB9,000,000 due from Sichuan Rike bore interest at 6.43% to 7.60% per annum. The amount due from this related party was fully settled in 2015 and there was no balance due from this related party as at 31 December 2015 and 2016.

28. CAPITAL AND LEASE COMMITMENTS

As at 31 December 2016 and 2015, the Group had no material outstanding capital or lease commitments.

29. ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Income tax

The Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

(ii) Recognition of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

29. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(a) Critical accounting judgements in applying the Group's accounting policies *(Continued)*

(iii) Deferred tax liabilities for withholding taxes

Deferred tax liabilities have been established for withholding tax payable on undistributed earnings of the subsidiary in the PRC based on that the directors of the Company considered that the undistributed earnings are to be repatriated and distributed by way of dividends. The assessment is constantly reviewed by the directors of the Company and deferred tax liabilities are adjusted when the results of assessment change.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Impairment of receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the trade receivables, debtors' credit-worthiness, and historical write-off experience. If the financial conditions of the customers and other debtors were to deteriorate, actual impairment losses would be higher than estimated.

(ii) Estimated useful lives of property, plant and equipment

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

29. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(iii) Valuation of inventories

Inventories are carried at the lower of cost and net realisable value at the end of each reporting period. Net realisable value is determined on the basis of the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, current market conditions, historical experience on selling similar inventories and physical conditions of the inventories. It could change significantly as a result of changes in market conditions. In addition, the management performs an inventory review at the end of each reporting period and assess the need for write down of inventories.

(iv) Valuation of property held for sale

The Group's property held for sale is stated at the lower of cost and net realisable value. Appropriate write-off to estimated net realisable value is recognised in profit or loss when there is objective evidence that the property held for sale is impaired. In estimating the net realisable value of the property held for sale, management has taken into consideration the current property market environment, the estimated market value of the property and/or the present value of future cash flows expected to receive. The net realisable value of the property held for sale at 31 December 2016 was determined by the directors of the Company by reference to its fair value based on a valuation report for the property performed by a firm of independent valuers with recent experiences and qualifications in valuing similar properties. Based on the assessment, the directors of the Company considered that the estimated net realisable value of the property held for sales exceeded its carrying amount of RMB1,468,000 at 31 December 2016 and no write-off for the property held for sale was considered necessary at 31 December 2016. If the property market environment and circumstances had changed significantly, the net realisable value of the property held for sale would have decreased and write-off loss may be required.

(v) Provision for obligations under product warranty

In some of the sales contracts made between the Group and its customers, there are warranty clauses for the quality of the products, which were sold by the Group and accepted by the customers, for a specified period of time normally not exceeding one year after sales. The Group considered the facts that there were no significant costs incurred in the past for its sold products during the warranty period after sales and at the reporting period end, the Group was not aware of any events that would cause the Group to incur material amount for the future costs for the purpose of the warranty clause of the sales agreements for those goods sold to the customers. Accordingly, the Group considered that no provision for the product warranty costs was required at the end of both reporting periods.

30. THE COMPANY'S STATEMENT OF FINANCIAL POSITION

The Company was incorporated in the Cayman Islands on 13 January 2016 as an exempted company with limited liability with an authorised share capital of HK$380,000 divided into 38,000,000 shares at par value of HK$0.01 each. Details of the share capital of the Company are set out in note 24(a).

	Note	2016 RMB'000
Non-current assets		
Investment in subsidiaries	30(a)	**29,903**
		29,903
Current assets		
Prepayments		**4,968**
		4,968
Current liabilities		
Other payables		**(8,392)**
Amounts due to subsidiaries	30(b)	**(9,772)**
Net current liabilities		**(18,164)**
TOTAL ASSETS LESS TOTAL LIABILITIES		**16,707**
EQUITY		
Equity attributable to owners of the Company		
Share capital	24(a)	**–**
Reserve	30(c)	**16,707**
TOTAL EQUITY		**16,707**

30. THE COMPANY'S STATEMENT OF FINANCIAL POSITION *(Continued)*

Notes:

(a) Investment in subsidiaries

	2016 RMB'000
Investment in Prosperous Composite	**29,903**

The particulars of the subsidiaries of the Company are disclosed in note 2.

(b) Amounts due to subsidiaries

	2016 RMB'000
Amount due to Nantong Meigu	**6,468**
Amount due to Prosperous Composite	**3,304**
	9,772

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

(c) Details of changes in the Company's individual components of reserves between the beginning and the end of the reporting period are set out below:

	Share capital RMB'000 (Note 24(a))	**Capital reserve** RMB'000 (Note 24(b))	**Share-based payment reserve** RMB'000 (Note 24(c))	**Retained profits** RMB'000	**Total** RMB'000
Upon incorporation	–	–	–	–	–
Loss and total comprehensive loss for the year	–	–	–	(13,529)	(13,529)
Contributions arising from share swap	–	42,487	–	–	42,487
Repurchase of shares for cancellation	–	(12,584)	–	–	(12,584)
Equity-settled share-based payments	–	–	333	–	333
At 31 December 2016	–	29,903	333	(13,529)	16,707

31. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements.

HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

[1] Effective for annual periods beginning on or after 1 January 2017
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019
[4] No mandatory effective date yet determined but available for adoption

31. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described as follows:

– All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

– With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

– In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

31. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

Key requirements of HKFRS 9 are described as follows: (Continued)

– The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the HKFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

HKFRS 16 Leases

This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. As the Group does not engage in any lease arrangements, it is not expected to be impacted by the new standard.

Amendments to HKFRS 2

The amendments specifically clarified how market and non-market vesting conditions and non-vesting conditions should be reflected in the measurement of a cash-settled share-based payment transaction.

31. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE *(Continued)*

Amendments to HKFRS 4

The amendments address concerns arising from the different effective dates of HKFRS 9 and the forthcoming insurance contracts standard. The amendments introduce the deferral approach, which temporarily exempt companies whose activities are predominantly connected with insurance from applying HKFRS 9 and Overlay approach which allows companies that issue insurance contracts to choose recognising in other comprehensive income, rather than profit or loss.

Amendments to HKFRS 10 and HKAS 28 (2011)

It addresses an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

Amendments to HKFRS 15

The amendments specifically clarified certain topics on implementation of HKFRS 15, as follows:

(i) Identification of performance obligations;

(ii) Principal versus agent considerations;

(iii) Licensing;

(iv) Scope of the exception for sales-based and usage-based royalties; and

(v) Practical expedients to the transition requirements of IFRS 15.

Amendments to HKAS 7

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12

The amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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 performance and positions.

32. SUBSEQUENT EVENTS

Saved as disclosed elsewhere in these consolidated financial statements, the following significant events took place subsequent to 31 December 2016 and up to the date of approval of these financial statements.

(a) On 13 January 2017, the Company completed the initial listing of its 400,000,000 shares of HK$0.01 each in issue (the "Initial Listing") including 100,000,000 new shares of HK$0.01 each issued by placing at HK$0.35 per placing share on 12 January 2017, 299,999,250 new shares of HK$0.01 each issued to Munsing (wholly-owned by Mr. Shen) and Singna (Wholly-owned by Mr. Jiang) of the Group by the way of capitalisation out of the share premium (note (b) below), and 750 shares of HK$0.01 each issued to Munsing (wholly-owned by Mr. Shen) and Singna (wholly-owned by Mr. Jiang), on the Growth Enterprise Market of the Stock Exchange. The net proceeds, after deducting the related share issuance costs, of approximately HK$33,247,000 (or RMB30,075,000) were raised from placing 100,000,000 new shares, which were credited to the Company's share capital of approximately HK$1,000,000 (or RMB905,000) and share premium of approximately HK$32,247,000 (or RMB29,170,000).

(b) On 12 January 2017, pursuant to the written resolution passed by the shareholders of the Company on 16 December 2016 and immediately prior to the Initial Listing on 13 January 2017, the Company issued 136,399,659 and 163,599,591 new shares of HK$0.01 each of the Company to Munsing (wholly-owned by Mr. Shen) and Singa (wholly-owned by Mr. Jiang), respectively by capitalisation of an aggregated amount of HK$2,999,992.50 (or RMB2,714,000) out of the share premium account of the Company.

33. CONTINGENT LIABILITIES

As at 31 December 2016 and 2015, the Group had no material contingent liabilities.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors of the Company on 24 March 2017.

Financial Summary

	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Revenue	53,672	56,405	**63,278**
Cost of sales	(34,565)	(35,141)	**(38,942)**
Gross profit	19,107	21,264	**24,336**
Other revenue	1,208	1,096	**112**
Other net income	92	657	**1,040**
Distribution cost	(7,384)	(6,376)	**(5,667)**
Listing expenses	–	(577)	**(14,382)**
Administrative expenses	(4,023)	(5,530)	**(8,123)**
Finance costs	(2,767)	(2,447)	**(1,127)**
Profit/(loss) before taxation	6,233	8,087	**(3,811)**
Income tax	(2,001)	(2,762)	**(3,887)**
Net profit/(loss)	4,232	5,325	**(7,698)**
Attributable to:			
Owners of the Company	3,555	4,380	**(7,771)**
Non-controlling interest	677	945	**73**
	4,232	5,325	**(7,698)**

	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Assets and liabilities			
Non-current assets	18,787	17,968	**16,484**
Current assets	67,061	51,220	**53,483**
Current liabilities	(54,162)	(34,398)	**(46,341)**
Non current liabilities	(1,634)	(1,169)	**(1,812)**
Net assets	30,052	33,621	**21,814**
Non-controlling interest	4,636	3,825	**–**
Total equity attributable to owners of the Company	25,416	29,796	**21,814**