2017
ANNUAL REPORT

MEIGU

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

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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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, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1603, 16/F China Building
29 Queen's Road 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, I hereby present the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017 to the shareholders (the "Shareholders") of the Company.

LISTING

On 13 January 2017, the Company was listed on the GEM of the Stock Exchange (the "Listing") by way of placing of 100,000,000 new shares of the Company (the "Placing") and the net proceeds amounting to approximately HK$16.6 million in total was raised. As of 31 December 2017, approximately HK$6.3 million of the net proceeds was applied in the enhancement of the existing production process and purchase of new production equipment, further development of new products, upgrade of research and development capabilities and general working capital. In response to changes in demand in domestic and overseas markets, the Group further improved its product design and enhanced its production planning, and part of the automation plans for production lines and acquisitions of machinery and equipment has been deferred accordingly. The remaining net proceeds of approximately HK$10.3 million is expected to apply towards completion of certain plans mentioned above in 2018. During the year, the Group recruited additional research and development staff to enhance its research and development capabilities. It is expected that the Group will continue its recruitment of research and development staff to maintain its market competitiveness.

REVIEW

Given that fibreglass reinforced plastic ("FRP") delivers outstanding performance as a comparatively new type of materials and as a substitute of traditional materials such as wood, concrete and metal, and the potential application of products made of FRP composites in a wide range of fields such as aerospace, energy and transportation industries, the management expects that the overall FRP market in China will grow at a CAGR of 8.0% for the next three years in the light of gradual maturity and better understanding of the FRP market in future.

In 2017, the Group continued to consolidate its market position in China and overseas, in particular in the areas of FRP subway evacuation platform, epoxy wedge strip and FRP crossties. As the Group successfully captured a number of market opportunities, enhanced marketing efforts and research capabilities, and put more efforts in product quality management, turnover of the Group grew to approximately RMB68.2 million in 2017, representing an increase of 7.8% as compared with that of 2016.

Since August 2017, the Group has commenced the production of a new product, FRP crossties, which was launched in the market successfully during the year. For the year ended 31 December 2017, FRP crossties generated over RMB4.4 million of additional sales to the Group which accounted for approximately 6.4% of the Group's total sales for the year and the gross margin generated from this product category was 31.2% over the same period. FRP crossties is expected to maintain considerable growth in market demand and becomes a significant revenue driver to the Group in future.

The Group has continuously and regularly attended and participated in various exhibitions and sales conferences of various composite materials both in overseas and in China and received favorable feedbacks. For the year ended 31 December 2017, revenue from overseas areas (excluding the United Kingdom and the United States of America) increased by approximately RMB3.8 million, representing an increase of 170.7% from that of 2016, which accounted for approximately 8.9% of the Group's total sales for the year (2016: 3.6%).

PROSPECTS

Looking ahead, despite a slight slowdown of China's macro-economic conditions, the continuous rigid growth in capital investment in infrastructure and projects by countries along the "Belt and Road Initiative", in particular the investment in transport infrastructure in central and eastern Europe, contributed to a sustained growth in the FRP market in China and other peripheral countries. However, the growth in future will be at a slower pace. The management expects the market would maintain a healthy CAGR of 8% for the next three years (i.e. from 2018 to 2020). In future years, the Group will participate proactively in tender bidding for all potential projects with open arms so as to provide further impetus for the sales of FRP products.

The Group will continue to expand customer base and enhance product recognition by improving production technologies and product quality and developing more new products, so as to exercise more effective cost control and strengthen the competitiveness 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) United States Coast Guard ('USCG") approved phenolic grating products; (iii) FRP subway evacuation platform products; and (iv) epoxy wedge strip products. A new product line, FRP crosstie products for use in railways has been developed for commercial production commencing from August 2017.

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 Board believes that research and development capabilities are essential to the future growth of the Group. In the year ended 31 December 2017, the Group spent approximately RMB3.5 million (2016: 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. A new product line for FRP crosstie products has been rolled for commercial production from August 2017. It is encouraging to see that a revenue of approximately RMB4.4 million in connection with the sales of FRP crosstie products was recorded in the year ended 31 December 2017. 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 28 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. In May 2017, there was one additional research and development staff hired. The group continues to seek for suitable specialists with appropriate calibre in 2018.

Management Discussion and Analysis

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, epoxy wedge strip products were developed in recent years and in August 2017, FRP crosstie products were added in the new product lists.

It is generally believed that effective marketing is important in capturing the market share and attracting potential customers and as such, in the year ended 31 December 2017, the Group undertook the following marketing activities:

i. Participation in trade fairs and sales conventions including the JEC World 2017 held in France, JEC Asia 2017 held in South Korea, WEFTEC 2017 held in USA and China Composites Expo 2017 in China;

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 minimizing any negative impact on the environment which may be resulted from the production process. During the year ended 31 December 2017, the Group had no material non-compliance or violation on any relevant laws and regulations of the PRC on environmental protection.

The Group adopted an occupational health and safety system to comply with the relevant occupational health and safety laws and regulations imposed by the government authorities in the PRC. During the year ended 31 December 2017, there were no material work-related injuries or fatalities at the production facilities, and no prosecution has been made against the Group by the relevant government authorities in the PRC in respect of the breach of applicable health and safety laws and regulations.

Details of the measure on minimizing any negative impact on the environment and occupational health and safety measure were set out in the environment, social and governance report set out on pages 34 to 41 of this annual report.

Management Discussion and Analysis

Although it is expected that the FRP products market in general will grow at a moderate 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 RMB68.2 million for the year ended 31 December 2017, representing an increase of approximately RMB4.9 million or 7.8% as compared to the corresponding year of 2016. The increase in revenue was primarily driven by the strong increase in sales revenue generated from sales of FRP subway evacuation platform products, epoxy wedge strip products and FRP crosstie products, a new product line launched in August 2017, which was partially offset by a decrease in sales of FRP grating and USCG approved phenolic grating products.

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

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	Sales revenue RMB'000	**Gross profit margin %**	Sales revenue RMB'000	Gross profit margin %
FRP grating products	**42,043**	**36.4**	48,126	36.9
USCG approved phenolic grating products	**8,112**	**41.9**	9,677	43.2
FRP subway evacuation platform products	**4,067**	**29.0**	67	22.4
epoxy wedge strip products	**9,596**	**39.4**	5,408	47.5
FRP crosstie products	**4,370**	**31.2**	–	–
	68,188	**36.1**	63,278	38.5

In the year ended 31 December 2017, sales of FRP grating products remained the largest contributor to the Group's revenue and it accounted for approximately 61.7% 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 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 decreased by 12.6% from approximately RMB48.1 million in the year ended 31 December 2016 to approximately RMB42.0 million in the year ended 31 December 2017. This is mainly attributable to the reduction in sales to the major customers in the PRC, the U.S. and U.K. 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 decreased by 16.2% from approximately RMB9.7 million in the year ended 31 December 2016 to approximately RMB8.1 million in the year ended 31 December 2017. Due to the reduction in number of ships manufactured by one of the shipbuilders in the PRC, orders for the USCG approved phenolic grating products were consequently cut down by this customer. The gross profit margin decreased slightly by 1.3% from 43.2% for the year ended 31 December 2016 to 41.9% for the year ended 31 December 2017. This is primarily due to the decrease in average selling price because of normal price fluctuations and the variations 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. Revenue derived from sales of FRP subway evacuation platform products increased drastically by nearly 60 times from approximately RMB67,000 for the year ended 31 December 2016 to approximately RMB4.1 million for the year ended 31 December 2017. The extremely low level of sales in the year ended 31 December 2016 was mainly because of the delay in the progress of railway construction projects undertaken by the customers whereas the resumption of the railway construction projects during the year ended 31 December 2017 accounted for the substantial increase in sales of this product category. The gross profit margin increased by 6.6% from 22.4% for the year ended 31 December 2016 to 29.0% for the year ended 31 December 2017. This is primarily due to the fact that the increase in sales and production volume has lowered the fixed costs of production per unit.

Epoxy wedge strip products were developed and launched in 2014 which targeted for manufacturers of wind turbine blades in the PRC. The revenue derived from sales of epoxy wedge strip products increased substantially by approximately RMB4.2 million or 77.4% from approximately RMB5.4 million for the year ended 31 December 2016 to approximately RMB9.6 million for the year ended 31 December 2017. This significant increase is mainly due to the fact that some new domestic customers placing orders for such products were only secured in July 2016 and hence the sales revenue generated during the year ended 31 December 2016 was very low compared to that of the year ended 31 December 2017. Moreover, the increase in sales is also attributable to the reduction of selling price during the year ended 31 December 2017 so as to capture a larger market share and therefore, there was a reduction in the gross profit margin by 8.1% from 47.5% for the year ended 31 December 2017 to 39.4% for the year ended 31 December 2017 resulting from the reduction in the average selling price.

FRP crosstie products were developed in line with the PRC's policies in promoting "Belt and Road Initiatives". It is intended to apply as the replacement of wooden crossties for the railway sector. The target customers of such products are (i) PRC railway corporations; and (ii) corporations which participate in the construction of national railway bridges. The FRP crosstie products have been rolled for commercial production in August 2017. Sales revenue of approximately RMB4.4 million for the FRP crosstie products was recorded in the year ended 31 December 2017, which has contributed approximately 6.4% of sales revenue to the total sales and fetched a gross profit margin of 31.2% for the year ended 31 December 2017.

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 2017		For the year ended 31 December 2016	
	Average selling price per unit RMB	**Volume**	Average selling price per unit RMB	Volume
FRP grating products (m^2)	**265.7**	**158,199**	285.2	168,773
USCG approved phenolic grating products (m^2)	**590.6**	**13,733**	564.3	17,148
FRP subway evacuation platform products (m^2)	**349.6**	**11,636**	854.7	78
epoxy wedge strip products (m)	**49.2**	**195,061**	29.2	185,356
FRP crosstie products (m^3)	**17,045.2**	**256**	–	–

The average selling price of the FRP grating products per m^2 decreased by 6.8% from RMB285.2 per m^2 for the year ended 31 December 2016 to RMB265.7 per m^2 for the year ended 31 December 2017, with a reduction in sales volume of approximately 6.3% 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 variations in the composition of lower priced FRP grading products sold. In addition, the adverse impact of the exchange rate between RMB against USD and EUR during the year ended 31 December 2017 also accounted for the reduction in the average selling price as a significant portion of sales of the FRP grading products was denominated in USD and EUR.

The average selling price of the USCG approved phenolic grating products per m^2 increased by approximately 4.7% from RMB564.3 per m^2 for the year ended 31 December 2016 to RMB590.6 per m^2 for the year ended 31 December 2017, with a reduction in sales volume of approximately 19.9% on comparison between the two years. The increase in average selling price was mainly due to the increased level of complexity in the cutting technique which allowed an increase in the average selling price of this product category.

The average selling price of the FRP subway evacuation platform products per m^2 reduced by approximately 59.1% from RMB854.7 per m^2 for the year ended 31 December 2016 to RMB349.6 per m^2 for the year ended 31 December 2017, with a substantial increase in sales volume of approximately 149 times on comparison between the two years. The reduction in average selling price was mainly due to the difference in specifications for the same product type and also for the purpose of capturing a larger market share. Moreover, during the year ended 31 December 2016, the Group received a small amount of purchase orders from an existing customer for replenishment on an ad hoc basis, which allowed the Group to charge a higher average selling price for those particular orders.

The average selling price of the epoxy wedge strip products per metre increased substantially by over 68.5% from RMB29.2 per metre for the year ended 31 December 2016 to RMB49.2 per metre for the year ended 31 December 2017, with an increase in sales volume of approximately 5.2% on comparison between the two years. This significant increase in average selling price was mainly due to the substantial increase in sale of product items with different shapes, weight and dimensions which procured higher average selling price.

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

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
PRC	**40,036**	38,058
U.S.	**13,349**	13,549
U.K.	**8,715**	9,422
Others	**6,088**	2,249
Total	**68,188**	63,278

Sales in the PRC market increased by approximately 5.2% from approximately RMB38.1 million for the year ended 31 December 2016 to approximately RMB40.0 million for the year ended 31 December 2017, which is mainly attributable to the increase in sales of FRP subway evacuation platform products, epoxy wedge strip products and FRP crosstie products to the PRC customers during the year ended 31 December 2017.

Sales to the U.S. market decreased by approximately 1.5% from approximately RMB13.5 million for the year ended 31 December 2016 to approximately RMB13.3 million for the year ended 31 December 2017, mainly because of the decrease in sales to one of the major customers in the U.S.

Sales to the U.K. market reduced by approximately 7.5% from approximately RMB9.4 million for the year ended 31 December 2016 to approximately RMB8.7 million for the year ended 31 December 2017, mainly because of the decrease in sales to one of the major customers in the U.K.

Sales to the other locations increased substantially by approximately 170.7% from approximately RMB2.2 million for the year ended 31 December 2016 to approximately RMB6.1 million for the year ended 31 December 2017, mainly because of new customers acquired in Kazakhstan, Lithuania and Australia.

Management Discussion and Analysis

OPERATING COSTS AND EXPENSES

Distribution costs increased by approximately RMB994,000 or 17.5% to approximately RMB6.7 million in the year ended 31 December 2017 from approximately RMB5.7 million in the year ended 31 December 2016. The increase is mainly attributable to the increase in: (i) wages and salaries; and (ii) exhibition expenses.

Administrative expenses increased substantially by approximately RMB4.3 million, a 52.8% increase to approximately RMB12.4 million in the year ended 31 December 2017 from approximately RMB8.1 million in the year ended 31 December 2016. The increase is mainly attributable to the increase in: (i) wages and salaries;(ii) research and development expenses; and (iii) legal and professional expenses.

OPERATING RESULTS

There was a swing from a loss of approximately RMB3.8 million before taxation for the year ended 31 December 2016 to a profit of approximately RMB3.9 million before taxation for the year ended 31 December 2017. This is primarily due to the substantial reduction in the listing expenses in the year ended 31 December 2017 as majority of the listing expenses was incurred in the year ended 31 December 2016.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group held total assets of approximately RMB90.6 million (2016: approximately RMB70.0 million), including cash and cash equivalents of approximately RMB11.3 million (2016: approximately RMB3.9 million).

As at 31 December 2017, the Group had total liabilities of approximately RMB43.2 million (2016: RMB48.2 million) which mainly comprise of bank borrowings amounting to RMB20 million (2016: RMB20 million).

As at 31 December 2017, the gearing ratio, expressed as a percentage of net debt (bank borrowings less cash and cash equivalents) over total capital employed (net debt plus total equity attributable to owners of the Company) was about 15.5% compared to 42.5% as at 31 December 2016. This significant reduction was mainly due to the Placing, which increased the Group's cash and cash equivalents and the total equity attributable to owners of the Company.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no contingent liabilities (2016: 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 so that appropriate actions could be carried out in a timely manner to address any foreign exchange risks;

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

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

In addition to the above, the Group is generally able to pass on the cost arising from 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 2017, 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 RMB1,474,000 as at 31 December 2017 (2016: RMB1,512,000) and the buildings with a carrying value of RMB8,700,000 as at 31 December 2017 (2016: RMB9,335,000) were pledged for a bank borrowing of RMB20,000,000;

(ii) an aggregate amount of RMB1,059,000 (31 December 2016: RMB513,000) was placed in bank accounts and pledged in favour of banks for bill issuance and customers in relation to sales transactions.

(iii) bills receivables of RMB3,400,000 (2016: Nil) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

CAPITAL STRUCTURE

As at 31 December 2017, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (2016: RMB6) and RMB47,397,000 (2016: RMB21,814,000) respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had 135 employees (2016: 124). The total staff costs, including Directors' remuneration, for the year were approximately RMB11.9 million (2016: approximately RMB10.3 million). Remuneration is determined based on each employee's qualifications, position and seniority. In addition to a basic salary, year-end discretionary bonuses were offered with reference to the Group's performance as well as individual's performance to attract and retain appropriate and suitable personnel to serve the Group. Furthermore, the Group offers other staff benefits like provision of retirement benefits, various types of trainings and sponsorship of training courses. The Group also adopts an annual review system to assess the performance of staff, which forms the basis of decisions with respect to salary rises and promotions.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

There were no significant investments held, acquisitions or disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2017

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries and affiliated companies as at 31 December 2017.

CASH FLOWS

The Group reported net cash flows of approximately RMB16.5 million (2016: RMB2.0 million) used in operating activities for the financial year ended 31 December 2017. The increase in net cash used is primarily due to the increase in the amount of payments to settle the trade, bills and other payables.

Net cash used in investing activities was approximately RMB1.7 million (2016: RMB465,000) for the financial year ended 31 December 2017. This substantial increase is mainly attributable to increase in the payments for the acquisition of property, plant and equipment.

Due to the Placing taken place in January 2017, net cash flows amounting to RMB25.6 million was generated from financing activities during the year ended 31 December 2017 comparing to net cash flows amounting to RMB8.4 million used in financing activities during the year ended 31 December 2016.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLAN

As the Shares were listed on 13 January 2017, the Group was at its first year of implementing its business objectives and strategies during the year ended 31 December 2017. An analysis comparing the business objectives set out in the prospectus of the Company dated 29 December 2016 with the Group's actual implementation progress during the year ended 31 December 2017 is as follows:

Business objectives	**Planned use of proceeds** (HK$'000)	**Actual use of proceeds** (HK$'000)
1. The enhancement of the existing production processes, and acquisition of new production facilities		
– Enhancement of the existing pultrusion equipment and associated resin basins and pre-pre-form machine to improve product quality and optimize production costs	850	850
– Purchase hydraulic presses to produce the parts for the FRP subway evacuation platform products	2,915	– *(Note 1)*
– Automation of the cutting process of the pultrusion production process to improve the cutting precision level and reduce labour costs	730	730
– Purchase of automated FRP moulding production facilities to further enhance the product quality and lower the labour costs	3,400	500 *(Note 2)*

Business objectives	Planned use of proceeds (HK$'000)	Actual use of proceeds (HK$'000)
2. Further development of the products according to the expected growth trend as a result of the PRC's macroeconomic policies in promoting "Belt and Road Initiatives"		
– Redefine the features and characteristics of the new FRP crosstie products via communication with the existing and potential customers and conduct trial production	1,100	1,100
– Development of the relevant quality control and testing equipment of the new FRP crosstie products	245	245
– Development and purchase of new production equipment for the new FRP crosstie products once the products are recognized by, and mass production orders are expected from potential customers	4,520	300 *(Note 3)*
– Procurement of testing equipment for continuous research and development in order to further optimize the production process of the new FRP crosstie products	735	735

Business objectives	Planned use of proceeds (HK$'000)	Actual use of proceeds (HK$'000)
3. Enhancement of the research and development capabilities by		
– procurement of testing equipment and raw materials for the existing product portfolio	350	350
– recruitment of additional research and development staff	350	60 *(Note 4)*
4. General working capital		
– Deployment of funds to accommodate the working capital needs, in particular relating to the upcoming production of the new FRP crosstie products	1,400	1,400
	16,595	6,270

Note:

1. Due to the change of the market demand for the cable scaffold of the FRP subway evacuation platform products, acquisition of hydraulic presses has not been materialized. The management would take appropriate action for the acquisition of hydraulic presses when the market demand resumes.

2. Purchase of automated FRP moulding production facilities would depend on the progress in the research and development of new products with better quality and lower labour costs, the schedule and timing of which cannot be estimated precisely. However, it is expected that there will be further spending on the automation of the production facilities in the first six months of 2018.

3. As the design and development of the new production lines for the FRP crosstie products have been revised and modified in order to fulfil different specifications of products developed, it is expected that there will be further use of proceeds until such modifications complete.

4. During the year ended 31 December 2017, there was only one additional research and development staff hired in May 2017. It is expected that another suitable candidate with appropriate calibre would be hired in the first half year of 2018.

EXECUTIVE DIRECTORS

Mr. Cheng Dong (成東), aged 42, is the chairman of the Board and was appointed as an executive Director on 16 March 2016 and is mainly responsible for overall management and administration of the Group's 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 the 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 the 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 52, is an executive Director, chief executive officer and one of the controlling shareholders of the Company. 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 the Group. Mr. Jiang is also a director of various subsidiaries of the Group and 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 the 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 43, is an executive Director and the compliance officer of the Group. She was appointed as an executive Director on 6 May 2016. She is responsible for overall management and administration of the Group's business operations, as well as overseeing compliance matters of the 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 the 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 35, 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 the 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.

Mr. Tam Tak Kei Raymond (譚德機), aged 54, 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 the 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.

Mr. Ng Sai Leung (吳世良), aged 45, 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 the 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.

Mr. Ng has been appointed as an independent non-executive director of Dongguang Chemical Limited (stock code: 1702) on 20 June 2017.

Save as disclosed above, 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 59, was appointed as the company secretary of the Group on 16 December 2016. He is responsible for the 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 the company secretary of Matsunichi Communication Holdings Limited, now known as Goldin Properties Holdings Limited (stock code: 283), the shares of which are listed on the Main Board of the Stock Exchange from August 2004 to July 2005. Mr. Ng was the company secretary of Powerleader Science & Technology Group Limited (stock code: 8236) from July 2007 to April 2010 and the company secretary of Celebrate International Holdings Limited (stock code: 8212) from July 2014 to February 2018, the shares of both companies are listed on the GEM of the Stock Exchange. Mr. Ng also acted as the company secretary of 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 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, (stock code: 8109), the shares of both companies are listed on the GEM of the Stock Exchange. Mr. Ng is also currently an independent non-executive director of China City Infrastructure Group Limited (stock code: 2349), the shares of which are listed on the Main Board 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 50, is the deputy general manager of the Group and is responsible for internal coordination between different departments of the 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 the 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.

Throughout the financial year ended 31 December 2017, the Company has complied with the provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 15 of the GEM Listing Rules.

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.

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 the 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 the 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 applicable to the Directors and employees; and

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

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 Directors 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 date of listing for the shares of the Company (the "Listing Date"), i.e. 13 January 2017 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. Ms. Shi Dongying, an executive Director and Mr. Huang Xin, an independent non-executive Director 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 the 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 appointments to the Board 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. The Directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. The Directors will also be updated from time to time on the business development and operation plans of the Company. All Directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, GEM Listing Rules and corporate governance practices.

Throughout the year ended 31 December 2017, the continuous professional development taken by respective Directors are as follows:

	Corporate governance, rules and regulations (including directors' duties)	Financial, management and other business skills and knowledge
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	✔	✔

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 meetings, 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. The Board held at least a board meeting for each quarter. Details of the attendance of the Directors during the year ended 31 December 2017 are as follows:

	Attendance
Executive Directors	
Mr. Cheng Dong	4/4
Mr. Jiang Guitang	4/4
Ms. Shi Dongying	4/4
Independent Non-executive Directors	
Mr. Huang Xin	4/4
Mr. Tam Tak Kei Raymond	4/4
Mr. Ng Sai Leung	4/4

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 audit committee is principally responsible for the monitoring of the integrity of periodical financial statements of the Company, the review of significant financial reporting judgements contained in them before submission to the Board for approval, the review of the Company's financial controls, risk management and internal control systems, and the review and monitoring of the auditors' independence and objectivity as well as the effectiveness of the audit process. The audit committee is also responsible for performing corporate governance functions which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to review and monitor the code of conduct and compliance applicable to employees and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report. The terms of reference setting out the audit committee's authorities, duties and responsibilities are available on the websites of the Company and the Stock Exchange.

The Group's audited annual results in respect of the year ended 31 December 2017 have been reviewed by the audit committee. There was no disagreement between the Board and the audit committee regarding the selection and appointment of the external auditor in respect of the year ended 31 December 2017.

The audit committee held four meetings during the year ended 31 December 2017. Individual attendance of each committee member at the meetings during the year ended 31 December 2017 is as follows:

	Attendance
Mr. Ng Sai Leung	4/4
Mr. Tam Tak Kei Raymond	4/4
Mr. Huang Xin	4/4

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. During the year ended 31 December 2017, the remuneration committee held one meeting. Individual attendance of each committee member at the meeting is as follows:

	Attendance
Mr. Tam Tak Kei Raymond	1/1
Mr. Jiang Guitang	1/1
Mr. Huang Xin	1/1

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. During the year ended 31 December 2017, the nomination committee held one meeting. Individual attendance of each committee member at the meeting is as follows:

	Attendance
Mr. Huang Xin	1/1
Mr. Cheng Dong	1/1
Mr. Ng Sai Leung	1/1

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. During the year ended 31 December 2017, the risk management committee held one meeting. Individual attendance of each committee member at the meeting is as follows:

	Attendance
Ms. Shi Dongying	1/1
Mr. Cheng Dong	1/1
Mr. Tam Tak Kei Raymond	1/1

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 Advisor"). 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 the Placing or change in the business activities from the forecast plan; and (iv) inquiry from the Stock Exchange.

The term of appointment of the Compliance Adviser commenced on the Listing Date and will 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

The company secretary of the Company (the "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 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 2017, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon our 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 the consolidated financial statements 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 50 to 55 of this report.

AUDITORS' REMUNERATION

During the year, remuneration paid/payable to the auditor of the Company for audit services is approximately RMB701,000.

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, including a defined management structure with limits of authority, are 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 the Group 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.

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 system of internal control and for reviewing its effectiveness. Throughout the year ended 31 December 2017, the Group complied with the code provisions on internal control and risk management. In particular, the Group appointed an independent internal control consultant to carry out a review of the implemented systems and procedures, including areas covering financial, operational and legal compliance controls and risk management functions covering the period from 1 January 2017 to 31 December 2017. The Directors were satisfied that the internal control systems as appropriate to the Group for the year ended 31 December 2017 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.

In accordance with Provision E.1.2 of the CG Code, attendance of members of the Board to the AGM held on 25 May 2017 is as follows:

	Attendance
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	✓

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 extraordinary general meeting. Pursuant to article 64 of the articles of association of the Company, extraordinary general meetings 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 extraordinary general meeting 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 maintaining 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 respective websites of the Stock Exchange and the Company;

(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 registrar serves 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 respective websites of the Stock Exchange and the Company.

There had been no changes in the memorandum and articles of association of the Company in the financial year ended 31 December 2017.

A. ENVIRONMENTAL

A.1 Emissions

Carbon dioxide

The Group is engaged in manufacturing and sales of various FRP products including (i) FRP grating products used for municipal engineering and sewage treatment plants; (ii) USCG approved phenolic grating products used for offshore platform and shipyard; (iii) FRP subway evacuation platform products; (iv) epoxy wedge strip products for wind power products; and (v) FRP crosstie products. During the manufacturing process, the Group would consume electricity for lighting the manufacturing operation and powering the equipment and machinery. Carbon dioxide or greenhouse gas would be indirectly produced when the Group consumes electricity.

During the year ended 31 December 2017, air emissions for nitrogen oxides, sulphur oxides and respiratory suspended particles (also known as particulate matter) were about 7.15 kg, 0.14 kg and 0.53 kg respectively, which were mainly produced from the company vehicles.

The main source of the Group's greenhouse gas emissions is derived from direct emission from the mobile combustion sources ("Scope 1"), indirect emission from acquired electricity emissions ("Scope 2") and other indirect emissions ("Scope 3"). The total greenhouse gas emissions from Scope 1, Scope 2 and Scope 3 for the year ended 31 December 2017 were 26,591 kg, 1,165,080 kg and 14,667 kg respectively.

The Group has implemented the policies to mitigate the adverse effect of carbon dioxide emission as follows:

- The manufacturing base has been designed to have more windows for more natural light and use less electronic light;
- The manufacturing base has single-storey building with higher roof to increase the space and to reduce the use of fan or air-conditioner;
- The office light and office equipment would be turned off during the luncheon rest time; and
- The warehouse which store dangerous goods would always be locked and lights are switched off when the warehouse is closed.

Emission of Volatile Organic Compounds ("VOCs")

FRP is a material which is produced by a mix of several raw materials including glass fibre, resins and other chemical materials. During the manufacturing process, the Group would also release VOCs which emits from i) styrene – a volatile component of polyester resin and gelcoat; and ii) acetone – a solvent used for cleaning tools and other surfaces contaminated with resin. Since the emission of VOCs is harmful to the environment, the Group has implemented the following measures to mitigate the harmful effect:

- Maintain an active carbon absorption system in specific manufacturing processes to absorb the emission of VOCs;
- The manufacturing base has single-storey building with higher roof to increase the space for diluting the emission of VOCs into the air;
- Install a number of industrial fans in certain manufacturing processes to improve the air quality of the manufacturing base; and
- The major VOCs emission source of the Group comes from colouring process. Staff is not allowed to enter into the coating room during the natural drying procedure of colour coating to avoid excess inhalation of volatile gases.

Waste management

The Group would produce waste materials such as waste raw materials, packaging materials, waste products and other wastes during the manufacture process. The above environmental wastes, which would pollute the land, would be disposed by the Group to an independent qualified waste collection and disposal services provider.

The Group has established policy to improve the manufacturing efficiency and reduce error productions to reduce the land contamination. The Group will continue looking for ways to reduce carbon dioxide, VOCs emissions and land contamination through measures such as:

- Reduction of VOCs emissions through using low-styrene emissions resins;
- Efficient usage of raw materials monitoring;
- Repairing the defective products rather than scrapping products. The Group has less than 0.3% scrapped products only; and
- Other basic household garbage was fully entrusted to the government to handle

The following non-hazardous waste produced was recorded in the year ended 31 December 2017:

- Non-hazardous waste produced: 6.6 tons
- Non-hazardous waste produced intensity: 0.0017 per ton of product

The Group has constantly kept up-to-date the local legislations and standards for environmental protection. In the year ended 31 December 2017, the Group has complied with applicable environmental laws and regulations such as Environmental Protection Law of the PRC《中華人民共和國環境保護法》, Prevention and Control of Atmospheric Pollution Law of the PRC《中華人民共和國大氣污染防治法》and Urban Drainage and Sewage Treatment Regulations《城鎮排水與污水處理條例》.

Overall, the management considers that the FRP products feature an environmentally friendly production process due to (i) the ease and availability of raw materials compared with wood resources that are considered as non-renewable mainly because of the long replant cycle; and (ii) the lower energy consumption during the production process compared with steel, timber or aluminium. Therefore, FRP has been increasingly used as an alternative to metals in aggressive environment to reduce maintenance costs. In addition, FRP is characterized by its relatively environmental friendliness and sustainability than other plastics as the latter would easily break down and disperse into the environment.

A.2 Use of resources

Energy and water consumption

The resources that the Group used consist of water consumption, electricity and raw materials. The main ingredients of the materials used contain glass fibre yarn, o-benzene resin, aluminium hydroxide, calcium carbonate, quartz sand and styrene. The management has established the following policies for the efficient use of resources during production to reduce wastes:

- optimize schedule of production for a more efficient energy consumption in the manufacturing process which includes spreading fiberglass into mold, pressing, heating and cooling process;
- reduce the usage of raw materials;
- reduce consumption of electricity such as limiting the usage for lights and air conditioning;

- test and explore more environmental friendly raw materials and explore ways to reduce the use of resources so as to contribute its part for environmental protection;

- connect to the urban sewage network to discharge sewage successfully;

- recycle the wood tray which is the packaging of materials and reuse it for packaging products; and

- upon request of customers, the Group would prepare iron tray to pack their products.

The following consumption data was recorded in the year ended 31 December 2017:

- electricity consumption: 1,438,359 kWh

- electricity consumption intensity: 0.37 per kg of product

- water consumption: 28,656 tons

- water consumption intensity: 0.0074 per kg of product

- packaging material used: 51.8 tons

- packaging material used intensity: 0.013 per ton of product

A.3 Environmental and natural resources

Measures in reducing environmental impact

The production of FRP has less impact to environment compared to steel, timber or aluminium. However, for further reduction on the environmental impact and use of natural resources, the Group would continue to make assessment for better alternatives for the use of raw materials that provide similar or better qualities. Meanwhile, the Group's policy objective is to maintain the balance between operation efficiency and resource consumption. It would allow the Group to have better production without overuse of resources.

B. SOCIAL

B.1 Employment

Labour practices

To ensure an equal and fair working environment, the Group adopts practices and policies of Labour Law of the PRC《中華人民共和國勞動法》, Labour Contract Law of the PRC《中華人民共和國勞動合同法》and other relevant laws and regulations.

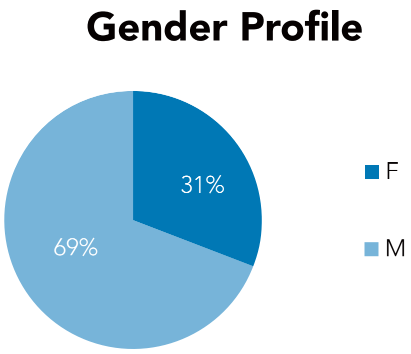
Employment contract specifies the terms including compensation and dismissal, working hours, rest periods and other benefits and welfare for staff. Staff handbook also highlights important information of policies on compensation, employee benefits, rights on termination, business conduct and leave benefits.

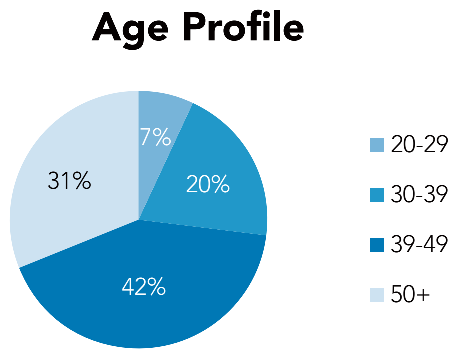
Social activities such as annual dinner, team building and other social events are organized for employees to participate to increase their work-life balance and enhance the relationship with employees. Accommodation and meals are also provided for the employees.

Anti-discrimination and equal opportunity

A good workplace practice attributes from being free from discrimination and equal opportunities for all despite of age, gender, race, colour, sexual orientation, disability or marital status to increase employee satisfaction. The Group would diversify its staff by means of gender and age to balance the culture and communications between staff. The Group encourages labour diversity and welcomes all manpower, thus putting the principle of fairness into practices. The Group had no reported incidents of non-compliance with regulations concerning employment during the year ended 31 December 2017.

The charts below show the gender and age of staff:





For the year ended 31 December 2017, the Group employed about 135 employees. The male/female composition ratio of the Group was approximately 7:3. The difference in the composition can be explained by the difference in job nature. In addition, the Group welcome any age range of people to join the Group as long as they are keen to learn and participate.

B.2 Health and Safety

Workplace health and safety

Protecting employee's occupational health and safety is critical for the Group. The Group complies with the Labour Law of the PRC《中華人民共和國勞動法》with respect to occupational safety and health and other applicable regulations for a healthy and comfortable working environment. As there is a high concentration of chemicals in the workplace, fire prevention protection for manufacturing facilities including fire-fighting equipment such as fire extinguisher and fire detection equipment are equipped and checked regularly to prevent any fire outbreak. Staff also participate in regular fire drill and smoking is prohibited in all areas. For the year ended 31 December 2017, the Group has reported zero work related fatalities and work injuries.

B.3 Development and Training

Employee development and training

Keeping employees trained is part of a fundamental role in business growth and all employees are well trained regarding to their positions. The Group encourages employees for continuous development and improves their skill set through training. The Group provides various internal and external trainings for developing the workforce, including orientation and on-board trainings for new staff so as for them to adapt to the operation of the Group efficiently and strengthen the skill and knowledge required at work. There are also regular annual appraisals to access staff performance with their supervisors.

B.4 Labour Standards

Child labour and forced labour

Under the Labour Contract Law of the PRC 《中華人民共和國勞動合同法》, child labour and forced labour is strictly forbidden at all times. Any individuals hired under legal working age and without any identification documents are disqualified from employment. It is the Group's policy to disqualify the person from employment if he or she is found to be hired against the requirements of the Labour Contract Law. For the year ended 31 December 2017, there was no labour dispute in the Group.

B.5 Supply Chain Management

Supplier management

The Group places quality and safety as priorities and is committed to reach the standard of safety and quality of its products. A quality supply chain has been set up to ensure high quality products for customers. All the suppliers' geographical regions are in the Mainland China, including Nantong, Shanghai, Changzhou and so on. The Group's policy on the supply chain management is as follows:

- great emphasis is placed on the communication and relationship with the suppliers towards sustainable development;
- assessment on the environmental and social risks of the supply chain is carried out regularly; and
- suppliers are urged to take measures to reduce their environmental and social risks.

B.6 Product Responsibility

Product safety and quality

The policies which the Group has adopted to ensure customer satisfaction and product quality include the ability to exchange defected products, checking the materials before production and returning any defected materials to the suppliers immediately. Before products leaving the warehouse, there is another inspection for quality. There is also a one-year warranty provided for the customers. For the year ended 31 December 2017, no products were returned due to safety or quality problems nor any complaint received from customers. The Group's products are in full compliance with Product Quality Law of the PRC《中華人民共和國產品質量法》. In addition, in order to protect consumer data and privacy, client information is kept confidential by the sales department and only authorized staff can access the information.

B.7 Anti-Corruption

Anti-corruption and money laundering

A system with good moral integrity and anti-corruption mechanism is the cornerstone for a sustainable and healthy development of the Group and therefore, the Group is committed to the compliance with the Criminal Law of the PRC《中華人民共和國刑法》, the Anti-Unfair Competition Law of the PRC《中華人民共和國反不正當競爭法》 and other relevant laws and regulations. In order to maintain high standard in business integrity, there is no tolerance towards any corruption, fraud, money laundering, bribery.

B.8 Community investment

Community involvement

For the continuous effort in giving back to the society, the Group would seek for opportunities to get involved in various community programs. The Group's approach towards community involvement is as follows:

- The Group would fulfil corporate social responsibility through the sustainable development strategy to expand its efforts in the areas of charity work;
- Assessment will be taken on how to give business activities to the interests of community;
- The Group is committed to providing career opportunities to the locals and promoting the development of the community's economy;
- The Group strives its best to support the government and the Group contributed RMB100,000 to Haimen Charity Foundation to support the local development in the year ended 31 December 2017.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as exempted company with limited liability on 13 January 2016. Pursuant to the corporate reorganisation in preparation for the listing of the shares of the Company (the "Shares") on the GEM of the Stock Exchange, the Company held all the issued capital of the subsidiaries comprising the Group since 16 March 2016.

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 FRP 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 established in the PRC.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 56 of this annual report.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2017 (2016: 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 12 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(a) 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 60 of this annual report.

The Company's reserves available for distribution to the shareholders as at 31 December 2017 amounted to RMB39,157,000.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the last four financial years is set out on page 122 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)*
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

In accordance with article 108 (a) and (b) of the articles of association of the Company, Ms. Shi Dongying and Mr. Huang Xin will retire by rotation at the forthcoming AGM 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 re-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

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 at 31 December 2017, 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 Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) 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 Company's 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 Buy-backs) since 1 January 2014, and that Mr. Shen, Mr. Jiang, Munsing and Singa are parties acting in concert until the date of any written termination by them. As such, Mr. Jiang, together with Mr. Shen, Munsing and Singa together 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 at 31 December 2017, so far as is known to the Directors, the interests and short positions of the persons or corporations in the Shares or underlying Shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO or, were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are as follows:

Name	Capacity/Nature of interest	Number of 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 Company's 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 Buy-backs) since 1 January 2014, and that Mr. Shen, Munsing, Singa and Mr. Jiang are parties acting in concert until the date of any written termination by them, As such, Mr. Shen, Munsing, Singa and Mr. Jiang together 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 Company's 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 Company's 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 2017, 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 26 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 2017, sales to the Group's five largest customers accounted for 37.2% (2016: 34.2%) 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 8.3% (2016: 8.0%).

For the year ended 31 December 2017, purchases from the Group's five largest suppliers accounted for 47.5% (2016: 44.0%) of the total cost of sales of the Group, while the percentage of the total cost of sales of the Group attributable to the Group's largest supplier was approximately 13.8% (2016: 11.4%).

None of the Directors, 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 of the Company, had any interest in the Group's five largest customers and suppliers during the year ended 31 December 2017.

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

During the year ended 31 December 2017 and up to the date of this report, the Directors were indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they might incur in connection with the execution of their duties. The Company has arranged directors' and officers' liability insurance policy of the Company for the year ended 31 December 2017.

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 the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the year ended 31 December 2017 and up to the date of this report.

DEED OF NON-COMPETITION

The Controlling Shareholders 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 our 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 the 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, 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 the 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.

During the year ended 31 December 2017, the Company had not received any information in writing from any of the Controlling Shareholders in respect of any new business opportunity which competed or might compete with the existing and future business of the Group which were offered to or came to the knowledge of the Controlling Shareholders or their associates (other than any member of the Group). Each of the Controlling Shareholders has made an annual declaration to the Company that he/it had fully complied with his/its obligations under the Deed of Non-competition for the year ended 31 December 2017.

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

There are no material events affecting the Group after the end of the reporting period.

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 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 33 of this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 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 Listing.

On behalf of the Board

Mr. Jiang Guitang
Director

Hong Kong, 23 March 2018

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 56 to 121, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017 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 ("HKSA") 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 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), 17, 25(a) and 28(b)(i) to the consolidated financial statements.) At 31 December 2017, trade and bills receivables amounted to approximately RMB49.3 million, net of provision for impairment of approximately RMB1.6 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 42.1% of its total trade and bills receivables at 31 December 2017. 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's judgement and inherent estimation uncertainty are involved in determining 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 17 to the consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter	How the matter was addressed in our audit
Inventory provisioning (refer to Notes 3(h), 15 and 28(b)(iii) to the financial statements) At 31 December 2017, inventories amounted to approximately RMB8 million, which cover a wide range of products for which the demand and ability of the Group to sell these inventories in the future may be adversely affected by many factors, such as changes in customers and consumer preferences, competitor activities including pricing and the introduction of new products. The risk is that there may not be adequate provisions of write-down against obsolete and slowing moving inventory at the year end. The Group's inventory provisioning process requires judgemental estimates made by management.	We reviewed and challenged the assumptions applied by the management of the Group in estimating the inventory provisioning at the year end. This included: – performing review of the ageing analysis of the inventory reports to identify any issues in respect of slow-moving items of the inventories; – assessing the demand for the Group's inventories by reference to the sales trends of the Group's products before and after the year end, signed sales contracts and confirmed sales orders from the customers; – reviewing the calculation of net realisable value of inventories, on a sample basis, with reference to the selling prices achieved on sales near and after the year end; and – checking that the inventories are stated at the lower of cost and net realisable value of the inventories; We also assessed the Group's disclosures in respect of inventories in note 15 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.

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.

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

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, intention 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 recommend 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, 23 March 2018

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	**2017** **RMB'000**	2016 RMB'000
Revenue	4	**68,188**	63,278
Cost of sales		**(43,594)**	(38,942)
Gross profit		**24,594**	24,336
Other revenue	5	**1,918**	112
Other net (loss)/income	5	**(1,034)**	1,040
Distribution costs		**(6,661)**	(5,667)
Listing expenses	6(c)	**(1,343)**	(14,382)
Administrative expenses		**(12,409)**	(8,123)
Profit/(loss) from operations		**5,065**	(2,684)
Finance costs	6(a)	**(1,122)**	(1,127)
Profit/(loss) before taxation	6	**3,943**	(3,811)
Income tax	7(a)	**(3,260)**	(3,887)
Profit/(loss) for the year		**683**	(7,698)
Other comprehensive income for the year		**–**	–
Total comprehensive income/(loss) for the year		**683**	(7,698)
Profit/(loss) for the year attributable to:			
Owners of the Company		**683**	(7,771)
Non-controlling interest		**–**	73
		683	(7,698)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Total comprehensive profit/(loss) for the year attributable to:			
Owners of the Company		**683**	(7,771)
Non-controlling interest		**–**	73
		683	(7,698)
		RMB cents	RMB cents
Earnings/(loss) per share			
Basic and diluted	10	**0.17**	(2.59)

The notes on pages 63 to 121 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	12	**14,549**	14,536
Leasehold land held for own use under operating lease	13	**1,436**	1,474
Pledged bank deposits	14	**–**	113
Deferred tax assets	21(b)	**390**	361
		16,375	16,484
Current assets			
Inventories	15	**8,337**	3,270
Property held for sale	16	**1,468**	1,468
Trade and other receivables	17	**52,040**	44,487
Pledged bank deposits	14	**1,059**	400
Cash and cash equivalents	18(a)	**11,324**	3,858
		74,228	53,483
Current liabilities			
Trade and other payables	19	**18,280**	21,869
Bank borrowings	20	**20,000**	20,000
Amount due to a shareholder	26(b)(i)	**–**	2,714
Income tax payable	21(a)	**2,397**	1,758
		40,677	46,341
Net current assets		**33,551**	7,142
Total assets less current liabilities		**49,926**	23,626
Non-current liabilities			
Deferred tax liabilities	21(c)	**2,529**	1,812
		2,529	1,812
NET ASSETS		**47,397**	21,814

Consolidated Statement of Financial Position

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
CAPITAL AND RESERVES			
Share capital	24(a)	**3,600**	–
Reserves		**43,797**	21,814
Total equity attributable to owners of the Company		**47,397**	21,814
Non-controlling interest		**–**	–
TOTAL EQUITY		**47,397**	21,814

Approved and authorised for issue by the board of directors of the Company on 23 March 2018.

On behalf of the board

Jiang Guitang *Director*	**Shi Dongying** *Director*

The notes on pages 63 to 121 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company									
		Reserves								
	Share capital RMB'000 (Note 24(a))	Share premium RMB'000 (Note 24(b))	Capital reserve RMB'000 (Note 24(c))	Share-based payment services RMB'000 (Note 24(d))	Statutory reserve RMB'000 (Note 24(e))	Retained profits RMB'000	Sub-total RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2016	–	–	9,557	–	2,855	17,384	29,796	29,796	3,825	33,621
Profit and total comprehensive income for the year	–	–	–	–	–	(7,771)	(7,771)	(7,771)	73	(7,698)
Issuance of shares	–	–	12,584	–	–	–	12,584	12,584	–	12,584
Repurchase of share	–	–	(12,584)	–	–	–	(12,584)	(12,584)	–	(12,584)
Acquisition of non-controlling interest	–	–	–	–	–	(544)	(544)	(544)	(3,898)	(4,442)
Equity-settled share-based payments	–	–	–	333	–	–	333	333	–	333
Transfer to statutory reserve	–	–	–	–	403	(403)	–	–	–	–
At 31 December 2016	–	–	9,557	333	3,258	8,666	21,814	21,814	–	21,814
At 1 January 2017	**-**	**-**	**9,557**	**333**	**3,258**	**8,666**	**21,814**	**21,814**	**-**	**21,814**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**683**	**683**	**683**	**-**	**683**
Issuance of shares upon listing (note 24(a)(v))	**886**	**30,136**	**-**	**-**	**-**	**-**	**30,136**	**31,022**	**-**	**31,022**
Issuance cost (note 24(a)(v))	**-**	**(6,522)**	**-**	**-**	**-**	**-**	**(6,522)**	**(6,522)**	**-**	**(6,522)**
Capitalisation Issue (note 24(a)(v))	**2,714**	**(2,714)**	**-**	**-**	**-**	**-**	**(2,714)**	**-**	**-**	**-**
Equity-settled share-based payments	**-**	**-**	**-**	**400**	**-**	**-**	**400**	**400**	**-**	**400**
Transfer to statutory reserve	**-**	**-**	**-**	**-**	**649**	**(649)**	**-**	**-**	**-**	**-**
At 31 December 2017	**3,600**	**20,900**	**9,557**	**733**	**3,907**	**8,700**	**43,797**	**47,397**	**-**	**47,397**

The notes on pages 63 to 121 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
(Profit)/loss before taxation		**3,943**	(3,811)
Adjustments for:			
– Depreciation of property, plant and equipment	6(c)	**1,717**	1,821
– Amortisation of interest in leasehold land held for own use under operating lease	6(c)	**38**	38
– Impairment loss/(reversal of impairment loss) on trade and bills receivables	6(c)	**118**	(436)
– Interest income	5	**(22)**	(19)
– Finance costs	6(a)	**1,122**	1,127
– Equity-settled share-based payment	6(b)	**400**	333
Operating cash flows before changes in working capital		**7,316**	(947)
Changes in working capital			
(Increase)/decrease in inventories		**(5,067)**	712
Increase in trade, bills and other receivables		**(12,639)**	(8,221)
Increase in pledged bank deposit		**(546)**	(400)
(Decrease)/increase in trade, bills and other payables		**(3,589)**	10,462
Cash (used in)/generated from operations		**(14,525)**	1,606
Income taxes paid		**(1,933)**	(3,612)
Net cash used in operating activities		**(16,458)**	(2,006)
Investing activities			
Payments for the purchase of property, plant and equipment		**(1,730)**	(484)
Interest received		**22**	19
Net cash used in investing activities		**(1,708)**	(465)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Financing activities			
Proceeds from issuance of shares	24(a)(v)	**31,022**	–
Cost of issuing shares	24(a)(v)	**(1,554)**	–
Proceeds from new bank loans	18(b)	**20,000**	20,000
Repayment of bank loans	18(b)	**(20,000)**	(20,000)
Interest paid		**(1,122)**	(1,127)
(Decrease)/increase in amount due to a shareholder	18(b)	**(2,714)**	2,714
Distributions paid to a non-controlling shareholder of a subsidiary		**–**	(756)
Proceeds from issue of shares of a subsidiary		**–**	12,584
Repurchase of shares for cancellation		**–**	(12,584)
Acquisition of non-controlling interest		**–**	(4,442)
Payments for initial public offering expenses		**–**	(4,776)
Net cash generated from/(used in) financing activities		**25,632**	(8,387)
Net increase/(decrease) in cash and cash equivalents		**7,466**	(10,858)
Cash and cash equivalents at 1 January		**3,858**	14,716
Cash and cash equivalents at 31 December	18(a)	**11,324**	3,858

The notes on pages 63 to 121 form an integral part of these consolidated financial statements.

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 GEM 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, Cayman Islands and its principal place of business is 66 Oujiang Road, Haimen Economic Development Zone, Nantong City, 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 reporting periods, the principal business was carried out through Nantong Meigu Composite Materials Company Limited ("Nantong Meigu"), which is an indirect wholly-owned subsidiary of the Company incorporated in the PRC.

2. REORGANISATION

Pursuant to the reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on GEM of the Stock Exchange, the Company has held all the then existing subsidiaries 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 last reporting period 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 last reporting period 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 Company has been 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 date of the listing of the Company's shares on 13 January 2017, 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.

As a result of the Reorganisation and since 16 March 2016, the Company has become the holding company of Prosperous Composite and Nantong Meigu.

As the Company, Prosperous Composite and Nantong Meigu have been 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 periods 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 disclosed in note 23.

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 the disclosure 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 GEM of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 18 to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of Cash Flows: Disclosure Initiative*, which requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard, amendments or interpretations that is not yet effective for the current accounting period, details of which are set out in note 30.

(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 all entities of the Group. These consolidated financial statements are presented in RMB and the figures are rounded to the nearest thousand of RMB ("RMB'000"), except for per share data, because the management evaluates the performance of the Group based on RMB.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the consolidated financial statements *(Continued)*

The preparation of 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 consolidated financial statements and major sources of estimation uncertainty are discussed in note 28.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests *(Continued)*

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.

(d)(i) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(e) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position 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 (including moulds)	5 to 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are recognised in profit or loss during the reporting 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(i) Impairment of trade and other receivables (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(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).

– 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 years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets and financial assets (other than investments in subsidiaries). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 3.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Non-current assets held for sale *(Continued)*

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss.

As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(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

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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 fiberglass reinforced plastic products in the PRC.

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

	2017 RMB'000	2016 RMB'000
Sales of fiberglass reinforced plastic products		
– fiberglass reinforced plastic grating	**42,043**	48,126
– USCG approved phenolic grating	**8,112**	9,677
– epoxy wedge strip	**9,596**	5,408
– composite subway evacuation platform	**4,067**	67
– fiberglass reinforced plastic crossties	**4,370**	–
	68,188	63,278

5. OTHER REVENUE AND OTHER NET INCOME

	2017 RMB'000	2016 RMB'000
Other revenue		
Interest income on bank deposits	**22**	19
Total interest income on financial assets not at fair value through profit or loss	**22**	19
Government grants and other subsidies (note below)	**1,896**	93
	1,918	112
Other net (loss)/income		
Net foreign exchange (loss)/gain	**(916)**	604
(Impairment loss)/reversal of impairment loss on trade and bills receivable (Note 16(b))	**(118)**	436
	(1,034)	1,040

Note:

Included in government grants and other subsidies was RMB1,700,000 (2016: Nil) representing subsidies received from the PRC government for the successful initial public offering of the Company. There was no unfulfilled conditions attached to these grants and subsidies.

6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting) the following:

	2017	2016
	RMB'000	RMB'000
(a) Finance costs		
Interest on bank borrowings	**1,122**	1,127
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**10,443**	8,386
Contributions to defined contribution retirement plans	**1,061**	1,566
Equity-settled share-based payments	**400**	333
	11,904	10,285
(c) Other items		
Amortisation for leasehold land (note 13)	**38**	38
Impairment loss/(reversal of impairment loss) on trade and bills receivables (note 17(b))	**118**	(436)
Depreciation of property, plant and equipment (note 12)	**1,717**	1,821
Cost of inventories recognised as expense (note (i))	**43,594**	38,942
Auditor's remuneration		
– auditor of the Company	**701**	724
– other auditors (note (ii))	**55**	19
Listing expenses		
– reporting accountant	**–**	2,215
– other professional parties	**1,343**	12,167
	1,343	14,382
Research and development costs (note (iii))	**(3,541)**	(2,537)

Notes:

(i) Cost of inventories recognised as expenses include RMB5,889,000 (2016: RMB4,894,000) relating to staff costs, and RMB1,034,000 (2016: RMB1,029,000) relating to depreciation of property, plant and equipment, for the year ended 31 December 2017, the amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

(ii) The amounts represent remunerations paid to other auditors of Nantong Meigu for statutory audit service.

(iii) Included in research and development costs are staff cost of RMB832,839 (2016: RMB666,000) and costs of materials consumed of RMB2,114,000 (2016: RMB1,426,000), the amounts of which are also included in the total amount separately disclosed for each of these types of expenses.

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

(a) Income tax recognised in profit or loss:

	2017	2016
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary		
– current year	**2,601**	2,858
– (over)/under-provision in prior years	**(29)**	277
	2,572	3,135
Deferred tax		
Origination and reversal of temporary differences in respect of		
– (impairment loss)/reversal of impairment loss on trade and bills receivable (note 21(b))	**(29)**	109
– withholding tax on distributable profits of the Group's PRC subsidiary (note 21(c))	**717**	643
	688	752
	3,260	3,887

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

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2017 and 2016, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years.

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2016: 25%). Dividends declared to Prosperous Composite, as a non-resident shareholder, in respect of profits earned by Nantong Meigu, is subject to PRC withholding tax at 10%.

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

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

	2017	2016
	RMB'000	RMB'000
Profit/(loss) before taxation	**3,943**	(3,811)
Notional tax on profit before taxation attributable to the subsidiaries under the tax jurisdiction of the PRC calculated at 25%	**2,505**	2,910
(Over)/under-provision in prior years	**(29)**	277
Tax effect of non-deductible expenses	**67**	57
Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiary	**717**	643
Actual tax expense	**3,260**	3,887

8. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVES

Emoluments of the directors of the Company and those of the chief executives of the Group for the year, 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, which were included in staff costs as disclosed in note 6(b), are as follows:

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Bonus RMB'000	Employer's contributions to defined contribution scheme RMB'000	Share-based payments RMB'000	Total RMB'000
2017						
Executive directors and chief executives						
Shen Qixian*#	–	144	–	–	–	144
Lin Guangquan*	–	–	–	–	–	–
Jiang Guitang*#	–	194	–	52	400	646
Cheng Dong#	–	379	–	30	–	409
Shi Dongying#	–	103	–	30	–	133
	–	820	–	112	400	1,332
Independent non-executive directors						
Huang Xin	–	103	–	5	–	108
Tam Tak Kei Raymond	–	103	–	5	–	108
Ng Sai Leung	–	103	–	5	–	108
	–	309	–	15	–	324
Total	–	1,129	–	127	400	1,656

8. DIRECTORS' EMOLUMENTS *(Continued)*

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Bonus RMB'000	Employer's contributions to defined contribution scheme RMB'000	Share-based payments RMB'000	Total 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

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

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 for 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 the year ended 31 December 2016.

During the year, no emolument was paid by the Group to any of the directors of the Company or the five highest paid individuals (note 9 below) as an inducement to join or upon joining the Group or as compensation for loss of office (2016: Nil). None of the directors of the Company or the top five highest paid individuals (note 9 below) waived any emoluments during the year (2016: Nil).

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2016: two) are directors, Cheng Dong and Jiang Guitang, whose emoluments for the year ended 31 December 2017 (2016: Cheng Dong, whose emoluments after the appointment date of 16 March 2016, up to 31 December 2016; 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 other three individuals (2016: the director, Cheng Dong, before 16 March 2016 and the other three individuals) were as follows:

	2017 **RMB'000**	2016 RMB'000
Basic salaries, allowances and other benefits	**1,388**	1,427
Employer's contributions to defined contribution retirement schemes	**113**	114
	1,501	1,541

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

10. EARNINGS/(LOSS) PER SHARE

As of 31 December 2016, the Company had 750 ordinary shares in issue. On 13 January 2017, the Company was listed on GEM 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. The calculation of the basic earnings/(loss) per share for each of the years ended 31 December 2017 and 2016 is based on the following data:

	2017 **RMB'000**	2016 RMB'000
Earnings/(loss) for the purpose of basic earnings/(loss) per share		
Profit/(loss) for the year attributable to the owners of the Company	**683**	(7,771)
	'000	'000
Number of shares		
Number of shares for the purpose of basic earnings/(loss) per share at the beginning of the reporting period	**300,000**	300,000
Effect of shares issued under initial public offering	**96,712**	–
Weighted average number of shares for the purpose of basis earnings/(loss) per share	**396,712**	300,000

Basic earnings per share for the year ended 31 December 2017 amounted to 0.17 RMB cent (2016: basic loss per share of 2.59 RMB cent) per share. The number of ordinary shares for the purpose of calculating basic earnings/loss per share has been retrospectively adjusted for the capitalisation issue of the shares of the Company completed on 12 January 2017 (note 24(a)(v)) and assuming the reorganisation had been effective on 1 January 2016.

No diluted earnings/(loss) per share was presented as there was no potential ordinary shares outstanding during the years ended 31 December 2017 and 2016.

11. SEGMENT REPORTING

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

(a) Geographic information

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

	2017 RMB'000	2016 RMB'000
Local customers		
The PRC (excluding Hong Kong) (place of domicile)	**40,036**	38,058
Foreign customers		
The United States of America	**13,349**	13,549
The United Kingdom	**8,715**	9,422
Canada	**1,218**	101
South Korea	**982**	285
Kazakhstan	**826**	–
Lithuania	**701**	–
Australia	**666**	–
Uruguay	**357**	–
France	**347**	955
Others	**991**	908
	28,152	25,220
	68,188	63,278

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

(b) Information about major customers

During the years ended 31 December 2017 and 2016, the Group did not have any major customer individually contributing 10% or more of total revenue of the Group.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Plant and equipment (including moulds)	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2016	14,144	450	12,457	778	27,829
Reallocation	(38)	–	38	–	–
Additions	–	–	477	7	484
At 31 December 2016	14,106	450	12,972	785	28,313
At 1 January 2017	14,106	450	12,972	785	28,313
Additions	–	–	1,795	–	1,795
Disposal	–	–	(65)	–	(65)
At 31 December 2017	**14,106**	**450**	**14,702**	**785**	**30,043**
Accumulated depreciation:					
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
At 1 January 2017	**4,771**	**397**	**8,158**	**451**	**13,777**
Charge for the year	**635**	**4**	**931**	**147**	**1,717**
At 31 December 2017	**5,406**	**401**	**9,089**	**598**	**15,494**
Carrying amounts:					
At 31 December 2017	**8,700**	**49**	**5,613**	**187**	**14,549**
At 31 December 2016	9,335	53	4,814	334	14,536

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

All the buildings are situated in the PRC and erected on the leasehold land, as referred to Note 13 below, at the end of both reporting periods.

As at 31 December 2017, the carrying amount of buildings pledged for a bank borrowing (note 20(a)) of the Group was RMB8,700,000 (2016: RMB9,335,000). Included in plant and equipment are moulds amounting to RMB1,915,000 (2016: RMB1,985,000), whose costs of RMB7,195,000 (2016: RMB6,891,000) are depreciated on a straight line basis over their estimated useful lives of 10 years. The depreciation policies for the other categories of property, plant and equipment are disclosed in note 3(e).

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

13. LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASE

	2017	2016
	RMB'000	RMB'000
Cost		
At 1 January and 31 December	**1,890**	1,890
Accumulated amortisation		
At 1 January:	**378**	340
Amortisation charged for the year	**38**	38
At 31 December	**416**	378
Carrying amount	**1,474**	1,512
Analysed for reporting purposes as:		
Current assets	**38**	38
Non-current assets	**1,436**	1,474
	1,474	1,512

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

As at 31 December 2017, the carrying amounts of leasehold land pledged for a bank borrowing (note 20(a)) of the Group were RMB1,474,000 (2016: RMB1,512,000).

14. PLEDGED BANK DEPOSITS

As at 31 December 2017, deposits of RMB1,059,000 (2016: RMB513,000) was placed in the accounts of a bank pledged in favour of banks for bills issuance and customers in relation to certain sales transactions. According to the agreements signed, all of the pledge will be released in 2018 (2016: RMB400,000 and RMB113,000 to be released in 2017 and 2018, respectively), and accordingly, the amount was classified as a current asset as at 31 December 2017 (2016: RMB400,000 and RMB113,000 to be classified under current assets and non-current assets, respectively).

15. INVENTORIES

	2017 **RMB'000**	2016 RMB'000
Raw materials	**3,287**	1,809
Work in progress	**1,298**	892
Finished goods	**3,752**	569
	8,337	3,270

Cost of inventories recognised as expense amounted to HK$43,594,000 (2016: HK$38,942,000) for the year ended 31 December 2017. No significant amount (2016: Nil) of inventories were write-off as expenses during the current year.

16. PROPERTY HELD FOR SALE

	2017 **RMB'000**	2016 RMB'000
Property held for sale at cost, in the PRC		
– amount of trade receivable settled in lieu of payment	**1,337**	1,337
– other incidental transaction costs	**131**	131
	1,468	1,468

As further detailed in note 17(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 experience in valuing similar properties, using the direct comparison approach, the fair value of the property held for sale was RMB2,400,000 as at 31 December 2017. In the opinion of the directors of the Company, the estimated fair value less costs to sell 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 2017.

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

17. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**46,658**	38,076
Less: allowance for doubtful debts	**(1,563)**	(1,445)
	45,095	36,631
Bills receivables (note (e) below)	**4,214**	1,964
Trade and bills receivables, net (notes (a), (b) and (c) below)	**49,309**	38,595
Other receivables	**849**	775
Prepayments and deposits (note (d) below)	**1,844**	5,079
Current portion of leasehold land held for own use under an operating lease (Note 13)	**38**	38
	52,040	44,487

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:

	2017 RMB'000	2016 RMB'000
0 – 30 days	**12,171**	10,311
31 – 90 days	**13,301**	13,547
91 – 180 days	**10,212**	6,983
181 – 365 days	**4,230**	4,919
Over 365 days	**9,395**	2,835
	49,309	38,595

The Group generally granted credit terms to its customers ranging from cash on delivery to 180 days after invoice date. As at 31 December 2017, included in the above trade and bills receivables are retention monies of RMB11,186,000 (2016: RMB9,024,000) 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 25(a).

17. TRADE AND OTHER RECEIVABLES *(Continued)*

(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

	2017 RMB'000	2016 RMB'000
At 1 January	**1,445**	1,881
Impairment loss recognised/(reversal of impairment loss)	**118**	(436)
At 31 December	**1,563**	1,445

As at 31 December 2017, trade receivables of the Group amounting to RMB1,563,000 (2016: RMB1,445,000) 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, specific allowance for doubtful debts of RMB118,000 (2016: reversal of doubtful debts RMB436,000) was recognised for the year ended 31 December 2017.

(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:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**36,372**	35,602
Past due but not impaired		
Less than 1 month past due	**1,132**	1,135
1 to 3 months past due	**1,941**	637
Over 3 months and less than 1 year past due	**7,784**	690
More than 1 year past due	**2,080**	531
	12,937	2,993
	49,309	38,595

17. TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade and bills receivables that are not impaired *(Continued)*

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 a good track record 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 amounting to 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. According to a valuation report issued by APAC Asset Valuation and Consulting Limited, an independent firm of professional valuers with recognised qualifications and experiences, using the Direct Comparison Approach, the fair value of the property assigned to the Group was RMB2,400,000 as at 31 December 2017, which is greater than the balance of overdue trade receivable of RMB1,337,000 due from the relevant customer at the time of settlement, and thus no impairment was considered necessary.

(d) As at 31 December 2016, included in prepayments and deposits are prepaid listing expenses of RMB4,968,000, which had been charged to share premium account of the Company during the year ended 31 December 2017 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.

(e) As at 31 December 2017, bills receivables of RMB3,400,000 (2016: Nil) were pledged to a bank in the PRC as securities for the issuance of bills by the Group (note 19).

18. CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000
(a) Cash and cash equivalents comprise:		
Cash at bank	**11,320**	3,854
Cash on hand	**4**	4
Cash and cash equivalents in the consolidated statements of financial position and the consolidated statements of cash flows	**11,324**	3,858

(b) Reconciliation of liabilities arising from financing activities

	Amount due to a shareholder RMB'000	Bank borrowings RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2017	**2,714**	**20,000**	**22,714**
Changes from financing cash flows			
– Proceeds from new bank loans	–	20,000	20,000
– Repayment of amount due to a shareholder/bank borrowings	(2,714)	(20,000)	(22,714)
At 31 December 2017	**–**	**20,000**	**20,000**

19. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	**9,135**	10,084
Bills payables	**4,246**	–
Total trade and bills payables	**13,381**	10,084
Other payables	**4,899**	11,785
	18,280	21,869

19. TRADE AND OTHER PAYABLES *(Continued)*

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

	2017	2016
	RMB'000	RMB'000
0 – 30 days	**4,800**	3,335
31 – 90 days	**4,938**	3,765
91 – 180 days	**3,230**	1,597
Over 180 days	**413**	1,387
	13,381	10,084

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

20. BANK BORROWINGS

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

	2017	2016
	RMB'000	RMB'000
Fixed rate term loans from banks due for repayment within 1 year or repayable on demand		
Secured (note (a))	**20,000**	10,000
Unsecured (note (b))	**–**	10,000
	20,000	20,000

Notes:

(a) As at 31 December 2017 and 2016, the bank borrowings were secured by buildings (note 12) and a leasehold land (note 13) of the Group. It was further guaranteed by an independent third party guarantee company in the PRC as at 31 December 2017 (2016: Nil).

(b) As at 31 December 2016, the unsecured bank borrowing was guaranteed by an independent third party guarantee company in the PRC.

21. INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	2017 RMB'000	2016 RMB'000
Current year		
PRC EIT	**2,397**	1,758

(b) Deferred tax assets

The components of deferred tax assets recognised in the consolidated statements 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 2016	470
Charged to consolidated profit or loss (note 7(a))	(109)
At 31 December 2016 and 1 January 2017	361
Credited to consolidated profit or loss (note 7(a))	29
At 31 December 2017	**390**

21. INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(Continued)*

(c) Deferred tax liabilities

The components of deferred tax liabilities recognised in the consolidated statements of financial position and the movements during the reporting periods are as follows:

	Temporary differences in respect of distributable profits from the PRC subsidiary
	RMB'000
At 1 January 2016	1,169
Charged to consolidated profit or loss (note 7(a))	643
At 31 December 2016 and 1 January 2017	1,812
Charged to consolidated profit or loss (note 7(a))	717
At 31 December 2017	**2,529**

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 RMB717,000 (2016: RMB643,000), have been recognised for the year ended 31 December 2017, respectively, representing 10% withholding tax on profits distributable to Prosperous Composite, a non-resident shareholder of Nantong Meigu.

(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 2017 and 2016.

22. 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 profit or loss of RMB1,061,000 (2016: RMB1,566,000) for year ended 31 December 2017, representing contributions payable to these plans by the Group at rates specified in the rules of the plans.

23. SUBSIDIARIES

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 Material Co., Ltd	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%
Treasure Route Group Limited	The BVI/ 17 July 2017/Limited liability company	Investment holding	US$1	100%
Indirect interests:				
Nantong Meigu Material Company Limited	The PRC/2 4 April 2003/Wholly foreign-owned enterprise	Research and development, production and sales of fiberglass reinforced plastic products in the PRC	US$1,500,000	100%
Dragon Galaxy Holdings Limited	Hong Kong/ 28 March 2017/ Limited liability company	Investment holding	HK$1	100%
美固新材料(南通)有限公司	The PRC/ 20 December 2017/ Wholly foreign-owned enterprise	Research and development, production and sales of fiberglass reinforced plastic products in the PRC	US$3,800,000*	100%

* None of the capital was paid up as at 31 December 2017.

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 29(d).

(a) Share capital

	2017 Number of shares	**2017** Share capital	2016 Number of shares	2016 Share capital
Ordinary shares of HK$0.01 each				
		HK$'000		HK$'000
Authorised:				
At beginning of the year	**38,000,000**	**380**	–	–
Upon incorporation (note (i))	**–**	**–**	38,000,000	380
Increase in authorised shares (note (iv))	**1,962,000,000**	**19,620**	–	–
At end of the year	**2,000,000,000**	**20,000**	38,000,000	380
		RMB,000		RMB,000
Issue and fully paid:				
At beginning of the year	**750**	**–**	–	–
Issue of shares upon incorporation (note (i))	**–**	**–**	1	–
Issue of shares upon listing (note (v))	**100,000,000**	**886**	–	–
Capitalisation issue (note (v))	**299,999,250**	**2,714**	–	–
Issue of additional shares (note (ii))	**–**	**–**	999	–
Buy-back of shares (note (iii))	**–**	**–**	(250)	–
At end of the year	**400,000,000**	**3,600**	750	–

24. CAPITAL AND RESERVES *(Continued)*

(a) Share capital *(Continued)*

Notes:

(i) 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.

(ii) 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.

(iii) 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.

(iv) On 16 December 2016, the authorised shares of the Company has increased from HK$380,000 to HK$20,000,000 by the creation of an additional 1,962,000,000 shares of HK$0.01 each in preparation for the listing of the Company.

(v) 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 GEM of the Stock Exchange on 13 January 2017. Proceeds from the placing approximated to RMB31,022,000, netting off with issuance costs of RMB6,522,000 including direct underwriting fee of RMB1,554,000 and prepaid listing expenses attributable to the placing of RMB4,968,000 (note 17(d)), which were charged to share premium account of the Company as deduction against the gross proceeds raised from the placing.

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 ordinary shares rank equally with regard to the Company's residual assets.

24. CAPITAL AND RESERVES *(Continued)*

(b) Share premium

The application of share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of Cayman Islands, the funds in share premium account are distributable to shareholder of the company provided that immediately the following date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business.

(c) Capital reserve

At at 31 December 2017 and 2016, 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 reporting periods, and Nantong Meigu has regarded as an indirect and 85.37% owned subsidiary of the Company during the year ended 31 December 2016 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 ended 31 December 2016 up to 14 March 2016.

24. CAPITAL AND RESERVES *(Continued)*

(d) Share-based payment reserve

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 (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, which was effectively transferred to Mr. Jiang ("Share Award"), based on an undertaking agreement made between Mr. Shen and Mr. Jiang ("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 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 December 2017. 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 years ended 31 December 2017 and 2016, the share-based payments amortised, recognised and charged as expense to the consolidated profit or loss of the Group amounted to RMB400,000 and RMB333,000, respectively, 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 years.

(e) 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.

24. CAPITAL AND RESERVES *(Continued)*

(f) Distributability of reserves

At 31 December 2017, the aggregate 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 RMB39,157,000 (2016: RMB18,223,000).

(g) 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 statements of financial position plus net debt.

The Group is not subject to any externally imposed capital requirements.

The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017 **RMB'000**	2016 RMB'000
Total borrowings (note 20)	**20,000**	20,000
Less: Cash and cash equivalents (note 18)	**(11,324)**	(3,858)
Net debt	**8,676**	16,142
Total equity attributable to owners of the Company	**47,397**	21,814
Total capital	**56,073**	37,956
Gearing ratio	**15%**	43%

25. 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 17), amount due to a shareholder (Note 26(b)), pledged bank deposits (Note 14), cash and cash equivalents (Note 18(a)), trade and other payables (Note 19) and bank borrowings (Note 20).

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 one year 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 2017, 10.6% and 42.1% (2016: 16.1% and 40.4%), of the total trade and bills receivables was due from the Group's largest debtor and the five largest debtors, respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables are set out in note 17.

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.

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

(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	Carrying amounts
	RMB'000	RMB'000
As at 31 December 2017		
Trade and other payables	**18,280**	**18,280**
Bank borrowings	**20,572**	**20,000**
	38,852	**38,280**
As at 31 December 2016		
Trade and other payables	21,869	21,869
Bank borrowings	20,634	20,000
Distributions payable to a non-controlling shareholder of a subsidiary	2,714	2,714
	45,217	44,583

25. 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 material interest bearing financial instruments at the end of the reporting period:

	2017		2016	
	Effective interest rates		Effective interest rates	
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings				
Bank borrowings	**5.00**	**20,000**	5.22	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.

25. 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 the 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 the reporting period.

	Exposure to foreign currency	
	2017	2016
	United States Dollars	United States Dollars
	RMB'000	RMB'000
Trade receivables	**9,715**	6,861
Cash and cash equivalents	**8,982**	361
Gross exposure arising from recognised assets and liabilities	**18,697**	7,222

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 the reporting period had changed at that date, assuming all other risk variables remained constant.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
		RMB'000		RMB'000
United States Dollars	**5%**	**701**	5%	271
	(5%)	**(701)**	(5%)	(271)

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

(d) Currency risk *(Continued)*

Sensitivity analysis (Continued)

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 each reporting period for presentation purposes.

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 the reporting period. The analysis is performed on the same basis for 2016.

26. 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 reporting period.

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

(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:

	2017 **RMB'000**	2016 RMB'000
Short-term employee benefits	**2,208**	2,246
Post-employment benefits	**422**	219
Equity-settled share-based payments	**400**	333
	3,030	2,798

26. 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

	2017	2016
	RMB'000	RMB'000
Amount due to a shareholder		
– Musing (wholly-owned by Mr. Shen) (note)	**–**	2,714

Note:

The amount due to the related company as at 31 December 2016 was non-trade in nature, unsecured, interest-free and repayable on demand. The amount was fully repaid during the year ended 31 December 2017.

27. CAPITAL AND LEASE COMMITMENTS

As at 31 December 2017 and 2016, the Group had no material outstanding capital and lease commitments.

28. 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.

28. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

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

(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.

(iii) Deferred tax liabilities for withholding taxes

Deferred tax liabilities have been established for withholding tax payable on undistributed earnings of a subsidiary in the PRC based on that the directors considered that the undistributed earnings are to be repatriated and distributed by way of dividends. The directors' assessment is constantly reviewed 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 receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and 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.

28. 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 fair value less costs to sell. Appropriate write-off to estimated fair value less costs to sell is recognised in profit or loss when there is objective evidence that the property held for sale is impaired. In estimating the fair value less costs to sell 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 fair value less costs to sell of the property held for sale at 31 December 2017 was determined by the directors of the Company by reference to 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 fair value less costs to sell of the property held for sale exceeded its carrying amount of RMB1,468,000 at 31 December 2017 and no write-off for the property held for sale was considered necessary at 31 December 2017. If the property market environment and circumstances had changed significantly, the fair value less costs to sell of the property held for sale would have decreased and write-down 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.

29. 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 of a par value HK$0.01 each. Details of the share capital of the Company are set out in note 24(a).

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Investment in subsidiaries	29(a)	**29,903**	29,903
Current assets			
Prepayments		**–**	4,968
Amount due from a subsidiary	29(b)	**13,212**	–
Cash and cash equivalent		**821**	–
		14,033	4,968
Current liabilities			
Other payables		**(768)**	(8,392)
Amounts due to subsidiaries	29(c)	**(7,198)**	(9,772)
Net current liabilities		**(7,966)**	(18,164)
TOTAL ASSETS LESS TOTAL LIABILITIES		**35,970**	16,707
EQUITY			
Equity attributable to owners of the Company			
Share capital	24(a)	**3,600**	–
Reserve	29(d)	**32,370**	16,707
TOTAL EQUITY		**35,970**	16,707

Notes:

(a) Investment in subsidiaries

	2017 RMB'000	2016 RMB'000
Investment in Prosperous Composite	**29,903**	29,903

The particulars of the subsidiaries of the Company are disclosed in note 23.

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

Notes: *(Continued)*

(b) Amount due from a subsidiary

	2017 **RMB'000**	2016 RMB'000
Amount due from Prosperous Composite	**13,212**	–

The amount due from the subsidiary is unsecured, interest-free and repayable on demand.

(c) Amount due to subsidiaries

	2017 **RMB'000**	2016 RMB'000
Amount due to Nantong Meigu	**7,198**	6,468
Amount due to Prosperous Composite	**–**	3,304
	7,198	9,772

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

(d) 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 premium (Note 24(b)) RMB'000	**Capital reserve** (Note 24(c)) RMB'000	**Share-based payment reserve** (Note 24(d)) RMB'000	**Accumulated losses** 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
As at 31 December 2016 and 1 January 2017	–	29,903	333	(13,529)	16,707
Issuance of shares upon listing (note 24(a)(v))	30,136	–	–	–	30,136
Issuance cost (note 24(a)(v))	(6,522)	–	–	–	(6,522)
Capitalisation issue (note 24(a)(v))	(2,714)	–	–	–	(2,714)
Loss and total comprehensive loss for the year	–	–	–	(5,637)	(5,637)
Equity-settled share-based payments	–	–	400	–	400
As at 31 December 2017	**20,900**	**29,903**	**733**	**(19,166)**	**32,370**

30. 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 2017 and which have not been adopted in these financial statements.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and interpretations mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

30. 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 which are relevant to the Group are 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.

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

HKFRS 9 Financial Instruments *(Continued)*

- For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised 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.

- 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.

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments revise existing requirements in HKFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) in the case of negative compensation payments (where the lender has to make a settlement payment in the event of termination by the borrower).

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

The directors do not anticipate that the application of the HKFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

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

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.

The directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amount of revenue recognised in the respective reporting periods.

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 this new standard.

HK(IFRIC)-Int 22 Foreign Currency Transactions and Advance Consideration

HK(IFRIC)-Int 22 addresses how to determine the "date of transaction" for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non- monetary asset or non-monetary liability (for example a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

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

HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The directors of the Company do not anticipate that the application of both interpretations will have a material impact on the Group's financial statements.

Amendments to HKFRS 2 Classification and measurement of Share-based payment transactions

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.

The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group's financial statements as the Group does not have any cash-settled Share-based payment transactions.

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction. For example, change in use for transfer from properties under development for sale in the ordinary course of business to investment properties could be evidenced by inception of an operating lease to another party. Currently, the Group accounts for such transfer only upon commencement of an operating lease.

The directors anticipate that the application of these amendments will result in early recognition of such transfers on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors of the Company on 23 March 2018.

FINANCIAL SUMMARY

	For the year ended 31 December			
	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Results				
Revenue	53,672	56,405	63,278	**68,188**
Cost of sales	(34,565)	(35,141)	(38,942)	**(43,594)**
Gross profit	19,107	21,264	24,336	**24,594**
Other revenue	1,208	1,096	112	**1,918**
Other net income/(loss)	92	657	1,040	**(1,034)**
Selling and distribution costs	(7,384)	(6,376)	(5,667)	**(6,661)**
Listing expenses	–	–	(14,382)	**(1,343)**
Administrative expenses	(4,023)	(6,107)	(8,123)	**(12,409)**
Profit/(loss) from operations	9,000	10,354	(2,684)	**5,065**
Finance cots	(2,767)	(2,447)	(1,127)	**(1,122)**
Profit/(loss) before taxation	6,233	8,087	(3,811)	**3,943**
Income tax	(2,001)	(2,762)	(3,887)	**(3,260)**
Profit/(loss) and total comprehensive income/(loss) for the year	4,232	5,325	(7,698)	**683**
Profit/(loss) for the year attributable to :				
Owners of the Company	3,555	4,380	(7,771)	**683**
Non-controlling interest	677	945	73	**–**
	4,232	5,325	(7,698)	**683**

	As at 31 December			
	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	85,848	69,188	69,967	**90,603**
Total liabilities	(55,796)	(35,567)	(48,153)	**(43,206)**
	30,052	33,621	21,814	**47,397**