2018
INTERIM REPORT

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.

This report, for which the board (the "Board") of directors (the "Directors") of MEIGU Technology Holding Group Limited (the "Company") collectively and individually accepts full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

RESULTS

The Board reports the unaudited results of the Company and its subsidiaries (the "**Group**") for the three months and six months ended 30 June 2018, together with comparative figures for the same corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2018	2017	**2018**	2017
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	4	**18,726**	19,387	**32,495**	31,095
Cost of sales		**(12,482)**	(12,526)	**(22,440)**	(20,022)
Gross profit		**6,244**	6,861	**10,055**	11,073
Other revenue	5	**9**	4	**292**	117
Other net income	5	**–**	–	**–**	77
Selling and distribution costs		**(2,016)**	(1,723)	**(4,089)**	(3,227)
Administrative expenses		**(2,850)**	(1,572)	**(5,987)**	(6,836)
Profit from operations		**1,387**	3,570	**271**	1,204
Finance costs	6(a)	**(305)**	(264)	**(607)**	(525)
Profit/(Loss) before taxation	6	**1,082**	3,306	**(336)**	679
Income tax	7	**(566)**	(774)	**(490)**	(1,150)
Profit/(Loss) for the period attributable to owners of the Company		**516**	2,532	**(826)**	(471)
Other comprehensive income for the period		**–**	–	**–**	–
Total comprehensive income/(loss) for the period attributable to owners of the Company		**516**	2,532	**(826)**	(471)
Earnings/(Loss) per share					
		RMB cent	*RMB cent*	***RMB cent***	*RMB cent*
Basic and diluted	9	**0.13**	0.63	**(0.21)**	(0.12)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**15,747**	14,549
Leasehold land held for own use under an operating lease		**1,418**	1,436
Deferred tax assets		**390**	390
		17,555	16,375
Current assets			
Inventories		**9,840**	8,337
Property held for sale		**1,468**	1,468
Trade and other receivables	10	**46,910**	52,040
Pledged bank deposits		**516**	1,059
Cash and cash equivalents		**10,088**	11,324
		68,822	74,228
Current liabilities			
Trade and other payables	11	**14,662**	18,280
Bank borrowings		**20,000**	20,000
Income tax payable		**2,327**	2,397
		36,989	40,677
Net current assets		**31,833**	33,551
Total assets less current liabilities		**49,388**	49,926
Non-current liabilities			
Deferred tax liabilities		**2,617**	2,529
NET ASSETS		**46,771**	47,397
Capital and reserves			
Share capital	12	**3,600**	3,600
Reserves		**43,171**	43,797
Equity attributable to owners of the Company		**46,771**	47,397

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Share capital	Share premium	Capital reserve	Share-based payment reserve	Statutory reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017 (Audited)	–	–	9,557	333	3,258	8,666	21,814
Loss and total comprehensive loss for the period	–	–	–	–	–	(471)	(471)
Placing of shares	886	30,136	–	–	–	–	31,022
Issuance of shares by capitalisation	2,714	(2,714)	–	–	–	–	–
Transaction costs for placing and capitalisation issue of shares	–	(6,522)	–	–	–	–	(6,522)
Equity-settled share-based payments	–	–	–	200	–	–	200
Transfer to statutory reserve	–	–	–	–	163	(163)	–
At 30 June 2017 (Unaudited)	3,600	20,900	9,557	533	3,421	8,032	46,043
At 1 January 2018 (Audited)	**3,600**	**20,900**	**9,557**	**733**	**3,907**	**8,700**	**47,397**
Loss and total comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**(826)**	**(826)**
Equity-settled share-based payments	**-**	**-**	**-**	**200**	**-**	**-**	**200**
Transfer to statutory reserve	**-**	**-**	**-**	**-**	**97**	**(97)**	**-**
At 30 June 2018 (Unaudited)	**3,600**	**20,900**	**9,557**	**933**	**4,004**	**7,777**	**46,771**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	**1,488**	(7,947)
Cash flows from investing activities		
Acquisitions of property, plant and equipment	**(2,127)**	(600)
Interest received	**13**	238
Net cash used in investing activities	**(2,114)**	(362)
Cash flows from financing activities		
Net proceeds from placing of the Company's shares	**–**	24,500
Repayment of the amount due to a related company	**–**	(2,714)
Interest payments	**(610)**	(528)
Net cash (used in)/generated from financing activities	**(610)**	21,258
Net (decrease)/increase in cash and cash equivalents	**(1,236)**	12,949
Cash and cash equivalents at beginning of period	**11,324**	3,858
Cash and cash equivalents at end of period	**10,088**	16,807

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL INFORMATION

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

2. BASIS OF PRESENTATION

Pursuant to a group reorganisation (the "**Reorganisation**") of the Company in connection with the listing of its shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 16 March 2016.

Details of the Reorganisation are set out in the paragraphs headed "Reorganisation" on pages 63 to 65 of the 2017 annual report of the Group. The Group is under the common control of the controlling shareholders of the Company prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The unaudited condensed consolidated results of the Group have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the six months ended 30 June 2016.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's unaudited consolidated results for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules and Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The HKICPA has issued a number of amendments to HKFRSs which are effective for the current accounting period of the Group. None of those developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The accounting policies adopted in preparing the unaudited consolidated results for the six months ended 30 June 2018 are consistent with those adopted in the financial statements of the Group for the year ended 31 December 2017.

The consolidated results of the Group for the six months ended 30 June 2018 are unaudited but have been reviewed by the audit committee of the Company.

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 and sales taxes, returns and discounts, during the period.

	For the three months ended 30 June		**For the six months ended 30 June**	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Sales of fiberglass reinforced plastic products				
– fiberglass reinforced plastic ("**FRP**") grating	**14,614**	11,549	**23,713**	19,935
– United States Coast Guard ("**USCG**") approved phenolic grating	**722**	3,652	**1,624**	4,813
– FRP subway evacuation platform	**317**	1,713	**1,911**	1,713
– epoxy wedge strip	**3,073**	2,473	**4,050**	4,634
– FRP composite crossties	**–**	–	**1,197**	–
	18,726	19,387	**32,495**	31,095

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

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

5. OTHER REVENUE AND OTHER NET INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Other revenue				
Interest income on bank deposits	**9**	4	**13**	5
Government subsidies	**–**	–	**277**	40
Sundry income	**–**	–	**2**	72
	9	4	**292**	117
Other net income				
Net foreign exchange gain	**–**	–	**–**	77

6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(Loss) before taxation is arrived at after charging the following items:

		For the three months ended 30 June		For the six months ended 30 June	
		2018	2017	**2018**	2017
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(a)	**Finance costs**				
	Interest on bank borrowings	**305**	264	**607**	525
(b)	**Staff costs (including directors' emoluments)**				
	Salaries, wages and other benefits	**3,096**	2,792	**6,082**	4,920
	Contributions to defined contribution retirement plans	**272**	243	**516**	551
	Equity-settled share-based payments	**100**	100	**200**	200
		3,468	3,135	**6,798**	5,671
(c)	**Other items**				
	Amortisation prepaid lease payments	**10**	10	**19**	19
	Depreciation for property, plant and equipment	**452**	436	**929**	869
	Cost of inventories recognised as expense *(note (i))*	**12,482**	12,526	**22,440**	20,022
	Research and development costs *(note (ii))*	**451**	596	**1,092**	935

Notes:

(i) Cost of inventories recognised as expenses include RMB3,723,000 (six months ended 30 June 2017: RMB2,769,000) relating to staff costs, and RMB574,000 (six months ended 30 June 2017: RMB485,000) relating to depreciation for property, plant and equipment, the amounts of which are also included in the total amount disclosed separately above for each of these types of expenses.

(ii) Included in the research and development costs are staff cost of RMB542,000 (six months ended 30 June 2017: RMB450,000) the amount of which is also included in the total amount separately disclosed for this type of expense.

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

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax				
PRC Enterprise Income Tax ("**EIT**") on profits of the Group's subsidiary	**430**	640	**403**	744
Deferred tax				
Origination and reversal of temporary differences in respect of withholding tax on distributable profits of the Group's PRC subsidiary	**136**	134	**87**	406
	566	774	**490**	1,150

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

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

8. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018 (6 months ended 30 June 2017: Nil).

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share attributable to owners of the Company is based on the following data:

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Profit/(Loss) attributable to owners of Company for the purpose of calculating basic earnings/(loss) per share	**516**	2,532	**(826)**	(471)
	'000	*'000*	***'000***	*'000*
Number of shares				
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	**400,000**	400,000	**400,000**	393,889

The weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share has been adjusted for the capitalisation issue of 299,999,250 shares of the Company completed on 12 January 2017 and assuming the Reorganisation had been effective on 1 January 2016.

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

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 *RMB'000* **(Unaudited)**	As at 31 December 2017 *RMB'000* (Audited)
Trade receivables	**41,596**	46,658
Less: allowance for doubtful debts	**(1,561)**	(1,563)
	40,035	45,095
Bills receivables	**4,508**	4,214
Trade and bills receivables, net	**44,543**	49,309
Other receivables	**832**	849
Prepayments and deposits	**1,497**	1,844
Current portion of leasehold land held for own use under an operating lease	**38**	38
	46,910	52,040

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

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

	As at 30 June 2018 *RMB'000* **(Unaudited)**	As at 31 December 2017 *RMB'000* (Audited)
0 – 30 days	**10,575**	12,171
31 – 90 days	**12,564**	13,301
91 – 180 days	**5,319**	10,212
181 – 365 days	**12,312**	4,230
Over 365 days	**3,773**	9,395
	44,543	49,309

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

11. TRADE AND OTHER PAYABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade payables	6,170	9,135
Bills payables	4,616	4,246
Total trade and bills payables	10,786	13,381
Other payables	3,876	4,899
	14,662	18,280

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
0 – 30 days	1,683	4,800
31 – 90 days	5,290	4,938
91 – 180 days	2,474	3,230
181 – 365 days	1,339	413
	10,786	13,381

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

12. SHARE CAPITAL

	Number of shares		Nominal value	
	As at 30 June 2018 '000 (Unaudited)	As at 31 December 2017 '000 (Audited)	**As at 30 June 2018 HK$'000 (Unaudited)**	As at 31 December 2017 HK$'000 (Audited)
Authorised:				
Ordinary shares of HK$0.01 each	**2,000,000**	2,000,000	**20,000**	20,000
Issued and fully paid				
Ordinary shares of HK$0.01 each	**400,000**	400,000	**3,600**	3,600

13. MATERIAL RELATED PARTY TRANSACTIONS

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

	For the three months ended 30 June		For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	**2018 RMB'000 (Unaudited)**	2017 RMB'000 (Unaudited)
Short-term employee benefits	**295**	245	**582**	553
Post-employment benefits	**40**	40	**80**	80
Equity-settled share-based payments	**100**	100	**200**	200
	435	385	**862**	833

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is an established and leading manufacturer in the PRC engaged in the research and development, production and sale of a variety of FRP products. The Group's major products consist of: (i) FRP grating products; (ii) USCG approved phenolic grating products; (iii) FRP subway evacuation platform products; (iv) epoxy wedge strip products; and (v) FRP crosstie products.

The applications for FRP are quite wide including building and construction field, electrical and telecommunications engineering. As the product is 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 component for corrosive environment.

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

Since August 2017, the Group has commenced the production of a new product category, FRP crossties, which was successfully launched in the market during the financial year ended 31 December 2017. It is encouraging to see that FRP crossties generated approximately RMB1.2 million of revenue to the Group which accounted for approximately 3.7% of the Group's total sales for the six months ended 30 June 2018. The gross margin generated from this product category was approximately 22.5% 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.

Looking ahead, despite a slight slowdown of China's macro-economic conditions and the trade war between the PRC and the United States of America ("**US**"), 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, would potentially contribute to a sustained growth in the FRP market in the PRC and other peripheral countries. However, the growth in future will be at a slower pace. The management expects that the market would maintain a healthy CAGR of 8.0% 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 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.

Financial Review

The Group posted a consolidated revenue of approximately RMB32.5 million for the six months ended 30 June 2018, representing a healthy increase of approximately RMB1.4 million or 4.5% as compared to the corresponding period in 2017. The increase in revenue was primarily driven by the increase in sales revenue generated from sales of FRP grating products and FRP subway evacuation platform products, and the launch of FRP crosstie products in 2017, which was partially offset by the decrease in sales of epoxy wedge strip products and USCG approved phenolic grating products. Moreover, sales of overseas markets increased significantly by approximately 53.0% to approximately RMB17.5 million for the six months ended 30 June 2018 from approximately RMB11.5 million for the same period in 2017. The overseas markets contributed 53.9% of total sales for the six months ended 30 June 2018, which has increased by approximately 17.1% in comparison with that of approximately 36.8% for the six months ended 30 June 2017.

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

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Sales revenue	**Gross profit margin**	Sales revenue	Gross profit Margin
	RMB'000	**%**	*RMB'000*	%
FRP grating products	**23,713**	**29.8**	19,935	33.6
USCG approved phenolic grating products	**1,624**	**43.8**	4,813	39.2
FRP subway evacuation platform products	**1,911**	**15.4**	1,713	29.0
Epoxy wedge strip products	**4,050**	**33.4**	4,634	43.0
FRP crosstie products	**1,197**	**22.5**	–	–
	32,495	**30.9**	31,095	35.6

During the six months ended 30 June 2018, sales of FRP grating products remained the largest contributor to the Group's revenue and it accounted for approximately 73.0% of the total revenue of the Group. The percentage of contribution has increased from 64.1% for the six months ended 30 June 2017. 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 US and the United Kingdom ("**UK**") who generally buy the products on per purchase order basis with no distribution arrangement. Revenue derived from sales of FRP grating products increased by approximately 19.0% from approximately RMB19.9 million for the six months ended 30 June 2017 to approximately RMB23.7 million for the six months ended 30 June 2018. This is mainly attributable to the increase in sales in the overseas markets, in particular the US market. The gross profit margin decreased by approximately 3.8% from approximately 33.6% for the six months ended 30 June 2017 to approximately 29.8% for the six months ended 30 June 2018. This was primarily to: (i) devaluation to US dollars against RMB; and (ii) increase in cost of production due to salary increment and increase in costs of raw materials.

USCG approved phenolic grating products were generally sold to shipbuilders and offshore oilfields construction companies in the PRC. Revenue generated from sales of USCG approved phenolic grating products decreased significantly by approximately 66.3% from approximately RMB4.8 million for the six months ended 30 June 2017 to approximately RMB1.6 million for the six months ended 30 June 2018. The sharp reduction was due to the downturn in the shipbuilding industry in China and nearby surrounding countries, which caused the customers to be more conservative on placing new orders. There were some cases where orders were deferred to the second half year of 2018. The gross profit margin increased by approximately 4.6% from approximately 39.2% for the six months ended 30 June 2017 to approximately 43.8% for the six months ended 30 June 2018. This was mainly due to the increased level of complexity in the cutting technique which allowed for an increase in the average selling price of this product category with no noticeable increase in cost of production.

FRP subway evacuation platform products were sold to main contractors who principally engaged in railway construction works in the PRC. Revenue generated from sales of FRP subway evacuation platform products increased by approximately 11.6% from approximately RMB1.7 million for the six months ended 30 June 2017 to approximately RMB1.9 million for the six months ended 30 June 2018. The increase in sales was due to the fact that a major project was only introduced in the first half year of 2017 and as such a lower sales revenue was recognized in the six months ended 30 June 2017 in comparison to the corresponding period in 2018. The gross profit margin reduced by approximately 13.6% from approximately 29.0% for the six months ended 30 June 2017 to approximately 15.4% for the six months ended 30 June 2018. Due to the orders received to supplement the previous finished orders, the production line, which was temporarily halted, was not running efficiently on resumption of production. This caused a relatively lower gross profit margin in comparison with that achieved in the corresponding six months in 2017.

Epoxy wedge strip products were developed and targeted for manufacturers of wind turbine blades in the PRC. The revenue derived from sales of epoxy wedge strip products decreased by approximately RMB584,000 or 12.6% from approximately RMB4.6 million for the six months ended 30 June 2017 to approximately RMB4.1 million for the six months ended 30 June 2018. This was largely attributable to the fact that the imposition of several controlling measurements by the government in the wind turbine manufacturing industry has led to hesitation of the customers in placing new orders. The gross profit margin reduced by approximately 9.6% from approximately 43.0% for the six months ended 30 June 2017 to approximately 33.4% for the six months ended 30 June 2018. The reduction in gross profit margin can be explained by the differences in product specifications in relation to different shapes, weight and dimensions for the products sold in the two periods.

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) the PRC railway corporations; and (ii) corporations which participate in the construction of national railway bridges. The FRP crosstie products were rolled out for commercial production in August 2017. The Group recorded sales revenue of approximately RMB1.2 million for FRP crosstie products for the six months ended 30 June 2018, which has contributed approximately 3.7% of revenue to the total sales and a gross profit margin of approximately 22.5% in the same period.

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

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Average selling price per unit	**Volume**	Average selling price per unit	Volume
	RMB		*RMB*	
FRP grating products	**267.7**	**88,580 m²**	272.2	73,243 m²
USCG approved phenolic grating products	**611.2**	**2,657 m²**	578.2	8,325 m²
FRP subway evacuation platform products	**349.6**	**5,468 m²**	349.6	4,900 m²
Epoxy wedge strip products	**45.6**	**88,799 m**	48.7	95,159 m
FRP crosstie products	**17,777.8**	**67 m³**	–	–

The average selling price of the FRP grating products per m^2 slightly decreased by approximately 1.7% from RMB272.2 per m^2 for the six months ended 30 June 2017 to RMB267.7 per m^2 for the six months ended 30 June 2018, with an increase in sales volume of approximately 20.9% in comparison between the two periods. The decrease in average selling price was mainly due to the devaluation of US dollars against RMB whereas the increase in sales volume was due to the increase in sales for overseas markets.

The average selling price of the USCG approved phenolic grating products per m^2 increased by approximately 5.7% from RMB578.2 per m^2 for the six months ended 30 June 2017 to RMB611.2 per m^2 for the six months ended 30 June 2018, with a decrease in sales volume of approximately 68.1% in comparison between the two periods. The increase in average selling price was mainly due to the increased level of complexity in the cutting technique which caused 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 remained unchanged, with an increase in sales volume of approximately 11.6% in comparison between the two periods.

The average selling price of the epoxy wedge strip products per metre decreased by approximately 6.4% from RMB48.7 per metre for the six months ended 30 June 2017 to RMB45.6 per metre for the six months ended 30 June 2018, with a decrease in sales volume of approximately 6.7% in comparison between the two periods. The decrease in average selling price was mainly due to the substantial increase in sale of product items with different shapes, weight and dimensions which procured lower average selling price.

The average selling price of the FRP crosstie products was RMB17,777.8 per m^3 for the six months ended 30 June 2018, and the sales volume was 67 m^3 in the same period. This product category was launched in the market in August 2017.

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
PRC	**14,973**	19,644
US	**9,174**	4,885
UK	**6,522**	5,087
Others	**1,826**	1,479
Total	**32,495**	31,095

Sales to the PRC market significantly decreased by approximately 23.8% from approximately RMB19.6 million for the six months ended 30 June 2017 to approximately RMB15.0 million for the six months ended 30 June 2018. This is because of the allocation of production capacity to more urgent orders from overseas and the reduction in sales of the USCG approved phenolic grating products during the six months period ended 30 June 2018.

Sales to the US market increased significantly by approximately 87.8% from approximately RMB4.9 million for the six months ended 30 June 2017 to approximately RMB9.2 million for the six months ended 30 June 2018, mainly because of the increase on sales order from the major customers and acquisition of some new customers in the US market.

Sales to the UK market also increased by approximately 28.2% from approximately RMB5.1 million for the six months ended 30 June 2017 to approximately RMB6.5 million for the six months ended 30 June 2018, mainly because of the increase on sales order from the major customers and acquisition of new customers in the UK market.

Sales to the other locations increased by approximately 23.5% from approximately RMB1.5 million for the six months ended 30 June 2017 to approximately RMB1.8 million for the six months ended 30 June 2018, mainly because of new customers acquired in Lithuania and Korea.

Selling and distribution costs

The selling and distribution costs of the Group increased by approximately RMB862,000, or 26.7% to approximately RMB4.1 million for the six months ended 30 June 2018 from approximately RMB3.2 million for the six months ended 30 June 2017. The increase was mainly attributable to the uplift of advertising expenses and transportation costs resulting from the surge of overseas sales during the six months ended 30 June 2018.

Administrative expenses

The administrative expenses decreased by approximately RMB849,000, or 12.4% to approximately RMB6.0 million for the six months ended 30 June 2018 from approximately RMB6.8 million for the six months ended 30 June 2017. This is primarily due to the conscientious effort taken by the management in controlling the administrative expenses of the Group.

Finance costs

Finance costs increased by approximately RMB82,000 to approximately RMB607,000 for the six months ended 30 June 2018 from approximately RMB525,000 for the six months ended 30 June 2017, which was mainly due to the general increase in bank rates during the six months ended 30 June 2018.

Loss for the period

Loss for the six months ended 30 June 2018 increased to approximately RMB826,000 from that of approximately RMB471,000 for the corresponding six months in 2017. This is mainly attributable to the reduction in the gross profit margin of the Group for the six months ended 30 June 2018.

Liquidity and financial resources

As at 30 June 2018, the Group held total assets of approximately RMB86.4 million (31 December 2017: approximately RMB90.6 million), including cash and cash equivalents of approximately RMB10.1 million (31 December 2017: approximately RMB11.3 million).

As at 30 June 2018, the Group had total liabilities of approximately RMB39.6 million (31 December 2017: approximately RMB43.2 million) which mainly comprise of bank borrowings amounting to approximately RMB20 million (31 December 2017: approximately RMB20 million).

As at 30 June 2018, the gearing ratio, expressed as a percentage of net debt (bank borrowing less cash and cash equivalents) over total capital employed (net debt plus total equity attributable to owners of the Company) was about 17.5% (31 December 2017: 15.5%). The increase in gearing ratio was mainly attributable to the increase in net debt during the six months ended 30 June 2018.

Capital structure

As at 30 June 2018, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (31 December 2017: RMB3,600,000) and RMB46,771,000 (31 December 2017: RMB47,397,000) respectively.

Cash flows

The Group reported net cash flows of approximately RMB1.5 million generated from operations for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately RMB7.9 million used in operations). The change in net cash flows in comparison between the two periods was mainly attributable to the settlement of account payables in the six months ended 30 June 2017 from the proceeds of placing of the Company's shares in January 2017.

Net cash used in investing activities was approximately RMB2.1 million for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately RMB362,000). The significant increase was mainly attributable to the increase in the payments for the acquisition of property, plant and equipment.

Due to the placing of the Company's shares in January 2017, net cash inflows from financing activities changed from approximately RMB21.3 million for the six months end 30 June 2017 to net cash outflows of approximately RMB610,000 for the six months ended 30 June 2018.

Contingent liabilities

As at 30 June 2018, the Group had no contingent liabilities (31 December 2017: Nil).

Exposure to fluctuations in exchange rates and related hedges

The Group is exposed to foreign exchange risk primarily through sales which give rise to receivables and cash balances that are denominated in US dollars, which is attributable to sales transactions entered into by the Group with overseas customers. The Group has adopted the following measures to mitigate the exposure to foreign exchange risk:

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

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

(iii) in the event that the relevant exchange rates fluctuate more than 5.0%, the Director and senior management would be notified such that appropriate actions could be carried out in a timely manner to address any foreign exchange risks;

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

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

In addition to the above, the Group is generally able to pass the cost arising from exchange rate fluctuations on 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 the Group's Assets

As at 30 June 2018, 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 RMB1,456,000 as at 30 June 2018 (31 December 2017: RMB1,474,000) and the building with a carrying value of RMB8,383,000 as at 30 June 2018 (31 December 2017: RMB8,700,000) were pledged for a bank borrowing in the amount of RMB20,000,000;

(ii) an aggregate amount of RMB516,000 (31 December 2017: RMB1,059,000) was placed in a bank account and pledged in favour of banks for bill issuance and customers in relation to some sales transactions.

(iii) bills receivables of RMB4,350,000 (31 December 2017: RMB3,400,000) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

Material Acquisition and Disposal

There was no material acquisition and disposal of subsidiaries, associates and joint ventures by the Group during the six months ended 30 June 2018.

Employees and Remuneration Policies

As at 30 June 2018, the Group had 139 employees (31 December 2017: 135). The total staff costs including directors' remuneration for the six months ended 30 June 2018 were approximately RMB6.8 million (six months ended 30 June 2017: approximately RMB5.7 million). Remuneration is determined based on each employee's qualifications, position and seniority. In addition to a basic salary, year-end discretionary bonuses were offered with reference to our Group's performance as well as individual's performance to attract and retain appropriate and suitable personnel to serve the Group. Furthermore, the Group offers other staff benefits like provision of retirement benefits, various types of trainings and sponsorship of training courses. The Group also adopts an annual review system to assess the performance of staff, which forms the basis of decisions with respect to salary rises and promotions.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLAN

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 up to 30 June 2018 is as follows:

Business objectives	**Planned use of proceeds** *(HK$'000)*	**Actual use of proceeds** *(HK$'000)*	
1. Enhancement of the existing production processes, and acquisition of new production facilities			
– Enhancement of the existing pultrusion equipment and associated resin basins and 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	703	*(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	417 *(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
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	119 *(Note 4)*

Business objectives	Planned use of proceeds *(HK$'000)*	Actual use of proceeds *(HK$'000)*
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	6,649

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 had 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 second half year 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 specification of products developed, it is expected that there will be further use of proceeds until such modification complete.

4. One additional research and development staff was hired in May 2017. It is expected that another suitable candidate with appropriate calibre would be hired in the second half year of 2018.

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

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company (the "**Shares**"), underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)("**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) pursuant to section 352 of the SFO to be entered in the register referred to therein pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors and to be notified to the Company and the Stock Exchange were as follows:

(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	282,000,000	70.5%

Notes:

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

2. Pursuant to the concert party deed (the "**Concert Party Deed**") entered into among Mr. Shen Weixing ("**Mr. Shen**"), Mr. Jiang, Munsing Developments Limited ("**Munsing**") and Singa dated 16 December 2016, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Buy-backs) since 1 January 2014, and that Mr. Shen, Mr. Jiang, Munsing and Singa are parties acting in concert in the course of the Reorganisation and until the date of any written termination by them. As such, Mr. Jiang, together with Mr. Shen, Munsing and Singa together controlled 70.5% of the entire share capital of the Company as at 30 June 2018.

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

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 six months ended 30 June 2018 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 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 six months ended 30 June 2018.

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

As at 30 June 2018, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which have been disclosed to the Company under the provision 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	282,000,000	70.5%
Munsing *(Notes 1 and 2)*	Interest held jointly with other persons; beneficial owner	282,000,000	70.5%

Name	Capacity/Nature of interest	Number of shares held/ interested in	Percentage of interest in the Company
Singa (Note 2)	Interest held jointly with other persons; beneficial owner	282,000,000	70.5%
Ms. Gong Hui (Note 3)	Interest of spouse	282,000,000	70.5%
Ms. Chen Lijuan (Note 4)	Interest of spouse	282,000,000	70.5%

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 will together control 70.5% of the entire share capital of the Company.

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

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the six months ended 30 June 2018, 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 13 of this report. These related party transactions did not constitute connected transactions or continuing connected transactions under Chapter 20 of the GEM Listing Rules.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

The Directors confirm that none of the controlling shareholders, namely Mr. Shen, Mr. Jiang, Munsing and Singa, the Directors and their respective close associates (as defined in the GEM Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the six months ended 30 June 2018 and up to the date of this report.

INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Group has appointed KGI Capital Asia Limited as its compliance adviser (the "**Compliance Adviser**") for the provision of advice and guidance to the Group in respect of compliance with the applicable laws and the GEM Listing Rules including various requirements relating to directors' duties and internal controls. 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 Group pursuant to Rule 6A.32 of the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' dealing in securities of the Company. The Directors have complied with such code of conduct and the required standard of dealings for the six months ended 30 June 2018.

CORPORATE GOVERNANCE CODE

The Directors consider that the Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules for the six months ended 30 June 2018.

AUDIT COMMITTEE

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

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control and risk management systems, nominate and monitor external auditor and to provide advice and comments to the Board on matters related to corporate governance. The Group's unaudited results for the six months ended 30 June 2018 have been reviewed by the audit committee.

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

Hong Kong, 9 August 2018

As at the date of this report, the executive Directors are Mr. Jiang Guitang, Mr. Cheng Dong and Ms. Shi Dongying and the independent non-executive Directors are Mr. Huang Xin, Mr. Tam Tak Kei Raymond and Mr. Ng Sai Leung.

This report will remain on the Stock Exchange's website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from the date of its posting and on the website of the Company at www.nantongrate.com.