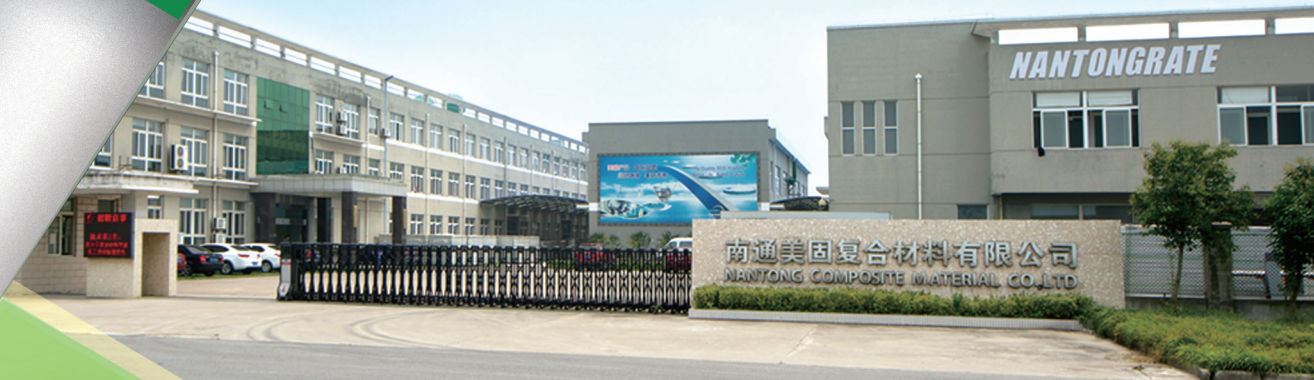
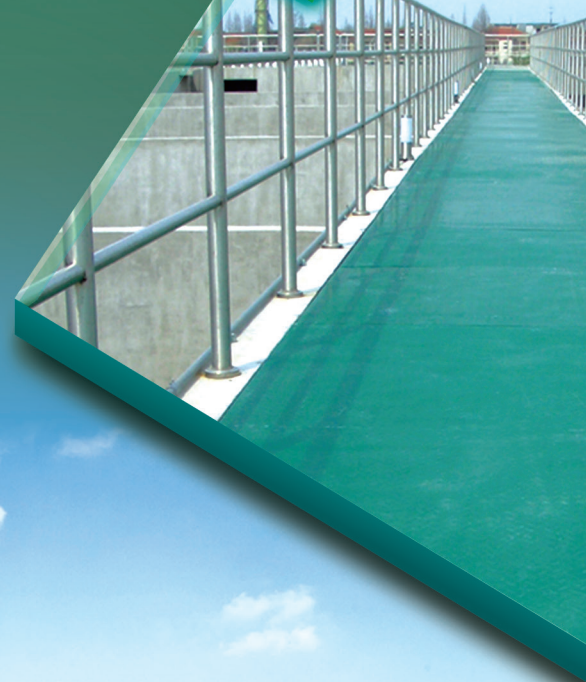




# MEIGU Technology Holding Group Limited 美固科技控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock Code : 8349

## ANNUAL REPORT 2018



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





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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

Mr. Huang Xin  
Mr. Tam Tak Kei Raymond  
Mr. Ng Sai Leung

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## RISK MANAGEMENT COMMITTEE

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

## AUTHORISED REPRESENTATIVES

Ms. Shi Dongying  
Mr. Ng Chi Ho Dennis

## COMPLIANCE OFFICER

Ms. Shi Dongying

## COMPANY SECRETARY

Mr. Ng Chi Ho Dennis

## COMPANY WEBSITE

[www.nantongrate.com](http://www.nantongrate.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 (HK) CPA Limited  
Certified Public Accountant  
9/F Leighton Centre  
77 Leighton Road  
Causeway Bay, Hong Kong

## REGISTERED OFFICE

P.O. Box 1350, Clifton House  
75 Fort Street, Grand Cayman KY1-1108  
Cayman Islands

## Corporate Information

### PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

66 South Oujiang Road  
Haimen City  
Jiangsu Province, PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### SHARE REGISTRAR AND TRANSFER OFFICE

#### **Cayman Islands Principal Share Registrar and Transfer Office**

Estera Trust (Cayman) Limited  
P.O. Box 1350, Clifton House  
75 Fort Street, Grand Cayman KY1-1108  
Cayman Islands

#### **Hong Kong Branch Share Registrar and Transfer Office**

Tricor Tengis Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Chairman's Statement

On behalf of the Board, I hereby present the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 to the shareholders (the "Shareholders") of the Company.

### REVIEW

On 13 January 2017, the Company's shares were 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\$16.5 million in total was raised. As of 31 December 2018, approximately HK\$7.5 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, enhancement of research and development capabilities and general working capital. In response to the 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\$9.0 million is expected to apply towards completion of certain plans mentioned above in 2019. 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.

In 2018, fibreglass reinforced plastic ("FRP") grating products remained the most popular products of the Group, which accounted for approximately 74.5% of the total sales of the Group. Thanks to the marketing efforts undertaken by our colleagues, increase in sales revenue and volume were noted. In addition, quality of FRP grating products were further recognized in the overseas markets such as the United States of America ("U.S.") and the United Kingdom ("U.K.").

Despite the uncertainty in the economies of the People's Republic of China ("PRC") and the overseas markets, the Group has continuously and regularly attended and participated in various exhibitions and sales conferences for various composite materials both in the PRC and overseas. For the year ended 31 December 2018, revenue generated from overseas sales (including the U.S. and the U.K.) amounted to approximately RMB41.3 million, which accounted for approximately 55.4% of the total sales of the Group, has increased by approximately 46.8% from that of 2017.

# Chairman's Statement

## PROSPECTS

In view of the slowdown of macro-economic conditions in the PRC and the intensifying trade war between the PRC and the U.S., capital investment in infrastructure projects by countries along the "Belt and Road Initiative", in particular the investment in transport infrastructure in central and eastern Europe and Asia, would be slowing down, which would exert an adverse impact on the growth in the FRP market in the PRC. Although, at present, there is no tariff imposed on the products of the Group shipped to the U.S., there remains a high level of uncertainty whether the Group's products will be subject to any imposition of tariff by the U.S. government in the near future. Taking into account these various factors, the management is of the view that the expected CAGR should be adjusted downwards from 8.0% to 5.0% for the coming two years (i.e. from 2019 to 2020). For alleviating these adverse impacts on the Group's business performance 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.

Moreover, there is a sign of recovery for railway construction in the PRC in the coming year. The Group is in the process of negotiating several sales orders for composite subway evacuation platform products with potential customers and expects that the sales order would be received in 2019 with considerable contribution to the revenue of the Group.

The Group will continue to expand its customer base and enhance product recognition by improving production technologies and product quality and by developing new products so as to exercise more effective cost control for strengthening the competitiveness of the Group. Meanwhile, the Group will recruit more talents to fulfill 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 work 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

## GENERAL OVERVIEW

The Group is an established and leading manufacturer in the PRC engaged in the research and development, production and sale of a variety of FRP products. The Group's major products consist of: (i) FRP grating products; (ii) United States Coast Guard ("USCG") approved phenolic grating products; (iii) composite 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 wider range of fields such as aerospace, energy and transportation industries, the management expects that the overall FRP market in China will grow at a revised CAGR of 5.0% for the next two years in light of gradual maturity and better understanding of the FRP market in future.

The Board believes that research and development capabilities are essential to the future growth of the Group. In the year ended 31 December 2018, the Group spent approximately RMB3.4 million (2017: approximately RMB3.5 million) in research and development expenditure for the development of new products and development of new technology solutions to improve the existing FRP products. The Group's research and development is conducted by the in-house technical department, which is led by Mr. Jiang Guitang, an executive Director of the Company. Mr. Jiang has accumulated over 29 years of industrial experience in the composite material industry. Under the leadership of Mr. Jiang, the Group will further enhance the research and development capability by procuring new testing equipment and recruiting additional full-time technical personnel. The Group continues to seek for suitable specialists with appropriate calibre in 2019.

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 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 under the category of composite subway evacuation platform products, epoxy wedge strip products and FRP crosstie products were developed, which contributed approximately 21.6% of the total sales in the financial year ended 31 December 2018.



## Management Discussion and Analysis

It is generally believed that effective marketing is important in capturing the market share and attracting potential customers and as such, during the year ended 31 December 2018, the Group undertook the following marketing activities:

- i. participation in trade fairs and sales conventions including the JEC World 2018 held in France, International Trade Fair for Transport Technology held in Germany, WEFTEC 2018 held in USA and China Composites Expo 2018 held in China;
- ii. placing advertisements on the internet such as an online trading platform Made-in-China.com ([www.made-in-china.com](http://www.made-in-china.com)), 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 2018, 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 2018, there were no material work-related injuries or fatalities at the production facilities, and no prosecution had 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 measures were set out in the environment, social and governance report on pages 36 to 44 of this annual report.

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

# Management Discussion and Analysis

## FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB74.6 million for the year ended 31 December 2018, representing an increase of approximately RMB6.4 million or 9.4% as compared to the corresponding year in 2017. The increase in revenue was primarily driven by the strong increase in sales revenue generated from sales of FRP grating products and epoxy wedge strip products, which was offset by decrease of sales in USCG approved phenolic grating products, composite subway evacuation platform products and FRP crosstie products.

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

	For the year ended 31 December			
	2018		2017	
	Sales revenue	Gross profit	Sales revenue	Gross profit
	RMB'000	margin	RMB'000	margin
		%		%
FRP grating products	55,541	34.4	42,043	36.4
USCG approved phenolic grating products	2,919	44.2	8,112	41.9
Composite subway evacuation platform products	1,912	15.4	4,067	29.0
Epoxy wedge strip products	12,749	29.9	9,596	39.4
FRP crosstie products	1,463	22.5	4,370	31.2
	<b>74,584</b>	<b>31.7</b>	<b>68,188</b>	<b>36.1</b>

In the year ended 31 December 2018, sales of FRP grating products remained the largest contributor to the Group's revenue and it accounted for approximately 74.5% 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 U.S. and the U.K. who generally buy the products on per purchase order basis with no distribution arrangement. Revenue derived from sales of FRP grating products increased by 32.1% from approximately RMB42.0 million in the year ended 31 December 2017 to approximately RMB55.5 million in the year ended 31 December 2018. This is mainly due to the increase in sales in the U.S. and U.K. markets. The gross profit margin decreased by approximately 2 percentage points from 36.4% to 34.4%, which was mainly due to the increase in costs of raw materials.

## Management Discussion and Analysis

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 64.0% from approximately RMB8.1 million in the year ended 31 December 2017 to approximately RMB2.9 million in the year ended 31 December 2018. The sharp reduction was due to the downturn of the shipbuilding industry in China and nearby surrounding countries, which caused the customers become more conservative on placing new orders. The gross profit margin increased by 2.3 percentage points from 41.9% for the year ended 31 December 2017 to 44.2% for the year ended 31 December 2018. This 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 with no noticeable increase in cost of production.

Composite subway evacuation platform products were sold to main contractors who principally engaged in railway construction works in the PRC. Revenue generated from sales of composite subway evacuation platform products decreased by approximately 53.0% from approximately RMB4.1 million for the year ended 31 December 2017 to approximately RMB1.9 million for the year ended 31 December 2018. The low level of sales in the year ended 31 December 2018 was mainly because of the temporary suspension in placing order from railway construction customers during the year ended 31 December 2018. The gross profit margin decreased sharply by 13.6 percentage points from 29.0% for the year ended 31 December 2017 to 15.4% for the year ended 31 December 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 last year.

Epoxy wedge strip products were developed and targeted for manufacturers of wind turbine blades in the PRC. The revenue derived from sales of epoxy wedge strip products increased by approximately RMB3.2 million or 32.9% from approximately RMB9.6 million for the year ended 31 December 2017 to approximately RMB12.7 million for the year ended 31 December 2018. This was mainly due to the acquisition of a new customer and the resumption of confidence from the existing customers on the wind turbine manufacturing industry regardless of the controlling measures imposed by the government. The gross profit margin reduced by 9.5 percentage points from 39.4% for the year ended 31 December 2017 to 29.9% for the year ended 31 December 2018. The reduction in gross profit margin can be explained by the differences in product specifications in relation to different shapes, weight and dimension for the products sold in the two years.

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 were rolled out for commercial production in August 2017. It generated approximately RMB1.5 million of revenue to the Group which accounted for approximately 2.0% of the Group's total sales for the year ended 31 December 2018. Unfortunately, revenue generated from the sales of FRP crossties products decreased by approximately RMB2.9 million or 66.5% from approximately RMB4.4 million for the year ended 31 December 2017 to approximately RMB1.5 million for the year ended 31 December 2018. The reduction was mainly attributable to the change of market demand resulting from the slowdown of the macro-economic conditions in the PRC. The gross profit margin reduced by 8.7 percentage points from 31.2% for the year ended 31 December 2017 to 22.5% for the year ended 31 December 2018. This was mainly due to the increase in costs of raw materials.

## 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			
	2018		2017	
	Average selling price per unit RMB	Volume	Average selling price per unit RMB	Volume
FRP grating products	281.1	197,606 m <sup>2</sup>	265.7	158,199 m <sup>2</sup>
USCG approved phenolic grating products	623.2	4,684 m <sup>2</sup>	590.6	13,733 m <sup>2</sup>
Composite subway evacuation platform products	349.6	5,468 m <sup>2</sup>	349.6	11,636 m <sup>2</sup>
Epoxy wedge strip products	60.0	212,703 m	49.2	195,061 m
FRP crosstie products	17,931.0	81 m <sup>3</sup>	17,045.2	256 m <sup>3</sup>

The average selling price of the FRP grating products per m<sup>2</sup> increased by approximately 5.8% from RMB265.7 per m<sup>2</sup> for the year ended 31 December 2017 to RMB281.1 per m<sup>2</sup> for the year ended 31 December 2018, with an increase in sales volume of approximately 25.0% in comparison between the two years. The increase in average selling price was largely due to the effect of depreciation of RMB against U.S. dollar throughout the year with an increase in sales to the U.S. market, which were invoiced in U.S. dollar.

The average selling price of the USCG approved phenolic grating products per m<sup>2</sup> increased by approximately 5.5% from RMB590.6 per m<sup>2</sup> for the year ended 31 December 2017 to RMB623.2 per m<sup>2</sup> for the year ended 31 December 2018, with a reduction in sales volume of approximately 65.9% in comparison between the two years. The increase in average selling price was mainly due to the increased level of complexity in the cutting technique which allows an increase in the average selling price of this product category. The significant reduction in sales volume was principally due to the general downturn of the shipping industry in China and nearby surrounding countries.

The average selling price of the composite subway evacuation platform products per m<sup>2</sup> remained unchanged, with a decrease in sales volume of approximately 53.0% in comparison between the two years. It is because the sales order, which was received in the year ended 31 December 2017, was requested by the customer to postpone for completion. The order was then finally completed during the year ended 31 December 2018.

## Management Discussion and Analysis

The average selling price of the epoxy wedge strip products per m increased by approximately 22.0% from RMB49.2 per m for the year ended 31 December 2017 to RMB60.0 per m for the year ended 31 December 2018, with an increase in sales volume of approximately 9.0% in comparison between the two years. The increase in average selling price was mainly due to the differences in product specifications in relation to different shapes, weight and dimension for the products sold in the two years.

The average selling price of the FRP crosstie products per m<sup>3</sup> increased by approximately 5.2% from RMB17,045.2 per m<sup>3</sup> for the year ended 31 December 2017 to RMB17,931.0 per m<sup>3</sup> for the year ended 31 December 2018, with a reduction in sales volume of approximately 68.4% in comparison between the two years. The increase in average selling price was largely attributable to the recovery of certain cost increments in raw materials from customers while the decrease in sales volume was mainly attributable to change in market demand.

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

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
PRC	<b>33,256</b>	40,036
U.S.	<b>22,066</b>	13,349
U.K.	<b>12,782</b>	8,715
Others	<b>6,480</b>	6,088
	<hr/>	<hr/>
Total	<b>74,584</b>	68,188
	<hr/> <hr/>	<hr/> <hr/>

Sales to the PRC market decreased by approximately 16.9% from approximately RMB40.0 million for the year ended 31 December 2017 to approximately RMB33.3 million for the year ended 31 December 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, composite subway evacuation platform products and FRP crosstie products during the year ended 31 December 2018.

Sales to the U.S. market increased by approximately 65.3% from approximately RMB13.3 million for the year ended 31 December 2017 to approximately RMB22.1 million for the year ended 31 December 2018, mainly because of the increase in sales orders from the major customers in the U.S. market.

Sales to the U.K. market increased by approximately 46.7% from approximately RMB8.7 million for the year ended 31 December 2017 to approximately RMB12.8 million for the year ended 31 December 2018, mainly because of the increase in sales orders from the major customers in the U.K. market.



# Management Discussion and Analysis

Sales to the other locations increased by approximately 6.4% from approximately RMB6.1 million for the year ended 31 December 2017 to approximately RMB6.5 million for the year ended 31 December 2018, mainly because of the new customers acquired in Belgium during the year ended 31 December 2018.

## OPERATING COSTS AND EXPENSES

Distribution costs decreased by approximately RMB1.0 million or 15.7% to approximately RMB5.6 million in the year ended 31 December 2018 from approximately RMB6.7 million in the year ended 31 December 2017. The decrease was mainly attributable to the reclassification of transportation costs to cost of sales on adoption of Hong Kong Financial Reporting Standard 15.

Administrative expenses increased by approximately RMB1.1 million, a 8.8% increase to approximately RMB13.5 million in the year ended 31 December 2018 from approximately RMB12.4 million in the year ended 31 December 2017. The increase was mainly attributable to the increase in wages and salaries, and legal and professional fees.

Finance costs decreased by approximately RMB49,000 to approximately RMB1.07 million in the year ended 31 December 2018 from approximately RMB1.12 million in the year ended 31 December 2017. The decrease was mainly due to the partial repayment of bank loan during the year ended 31 December 2018.

## OPERATING RESULTS

There was an increase of approximately 115.2% in profit for the year from approximately RMB683,000 for the year ended 31 December 2017 to that of approximately RMB1.5 million for the year ended 31 December 2018. This substantial uplift in profit was largely due to the listing expenses of approximately RMB1.3 million charged in the year ended 31 December 2017, which did not recur in the year ended 31 December 2018.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group held total assets of approximately RMB92.3 million (2017: approximately RMB90.6 million), including cash and cash equivalents of approximately RMB6.2 million (2017: approximately RMB11.3 million).

As at 31 December 2018, the Group had total liabilities of approximately RMB43.0 million (2017: RMB43.2 million) which mainly comprise of bank borrowings amounting to RMB15.0 million (2017: RMB20.0 million).

As at 31 December 2018, 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 15.2% compared to that of 15.5% as at 31 December 2017. This slight reduction was mainly due to the reduction in bank borrowings by RMB5.0 million from RMB20.0 million as at 31 December 2017 to RMB15.0 million as at 31 December 2018.

## CONTINGENT LIABILITIES

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

# Management Discussion and Analysis

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

- (i) the accounting and finance department would closely monitor the movement of relevant exchange rates to ensure that the net exposure is kept to an acceptable level;
- (ii) quotations provided to the 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 the cost arising from the 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.

## CHARGE ON GROUP'S ASSETS

As at 31 December 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 RMB1,436,000 as at 31 December 2018 (2017: RMB1,474,000) and the buildings with a carrying value of RMB9,417,000 as at 31 December 2018 (2017: RMB8,700,000) were pledged for bank borrowings of RMB15,000,000 (2017: RMB20,000,000);
- (ii) an aggregate amount of RMB50,000 (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 certain sales transactions; and
- (iii) bills receivables of RMB6,800,000 (31 December 2017: RMB3,400,000) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

# Management Discussion and Analysis

## CAPITAL STRUCTURE

As at 31 December 2018, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (2017: RMB3,600,000) and RMB49,267,000 (2017: RMB47,397,000) respectively.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 135 employees (2017: 135). The total staff costs (including Directors' remuneration) for the year were approximately RMB13.2 million (2017: approximately RMB11.9 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 2018 (2017: Nil).

## SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

There were no significant investments held, acquisitions or disposals of subsidiaries, associates and joint ventures by the Group during the year ended 31 December 2018.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associates and joint ventures as at 31 December 2018.

## CASH FLOWS

The Group reported net cash flows of approximately RMB10.3 million generated from operating activities for the financial year ended 31 December 2018 compared to that of approximately RMB16.5 million used in operating activities for the year of 2017. The swing from cash outflows to cash inflows in respect of operating activities was largely due to the positive impact of the changes in working capital taken place in the year ended 31 December 2018.

Net cash used in investing activities was approximately RMB9.4 million (2017: RMB1.7 million) for the financial year ended 31 December 2018. This increase was mainly attributable to the net cash outflows in acquiring financial assets at fair value through other comprehensive income, which are bank wealth management products for short term investment purpose.

Due to the Placing taken place in January 2017, net cash flows amounting to approximately RMB25.6 million was generated from financing activities during the year ended 31 December 2017 compared to net cash flows of approximately RMB6.1 million used in financing activities, mainly due to partial repayment of bank loans, during the year ended 31 December 2018.

# Management Discussion and Analysis

## 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 31 December 2018 is as follows:

<b>Business objectives</b>	<b>Planned use of proceeds</b> (HK\$'000)	<b>Actual use of proceeds</b> (HK\$'000)
1. Enhancement of the existing production processes, and acquisition of new production facilities: <ul style="list-style-type: none"> <li data-bbox="204 789 855 929">– Enhancement of the existing pultrusion equipment and associated resin basins and pre-form machine to improve product quality and optimize production costs</li> <li data-bbox="204 968 855 1037">– Purchase hydraulic presses to produce the parts for composite subway evacuation platform products</li> <li data-bbox="204 1075 855 1177">– Automation of the cutting process of the pultrusion production process to improve the cutting precision level and reduce labour costs</li> <li data-bbox="204 1215 855 1317">– Purchase of automated FRP moulding production facilities to further enhance the product quality and lower the labour costs</li> </ul>	850  2,915  730  3,400	850  – <i>(Note 1)</i>  730  1,560 <i>(Note 2)</i>

## Management Discussion and Analysis

<b>Business objectives</b>	<b>Planned use of proceeds</b> (HK\$'000)	<b>Actual use of proceeds</b> (HK\$'000)
<p>2. Further development of the products according to the expected growth trend as a result of the PRC's macro-economic policies in promoting "Belt and Road Initiatives":</p> <ul style="list-style-type: none"> <li data-bbox="240 653 890 793">– Redefine the features and characteristics of the new FRP crosstie products via communication with the existing and potential customers and conduct trial production</li> <li data-bbox="240 836 858 933">– Development of the relevant quality control and testing equipment of the new FRP crosstie products</li> <li data-bbox="240 976 890 1149">– 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</li> <li data-bbox="240 1192 890 1332">– Procurement of testing equipment for continuous research and development in order to further optimize the production process of the new FRP crosstie products</li> </ul>	<p style="text-align: center;">1,100</p> <p style="text-align: center;">245</p> <p style="text-align: center;">4,520</p> <p style="text-align: center;">735</p>	<p style="text-align: center;">1,100</p> <p style="text-align: center;">245</p> <p style="text-align: center;">417 (Note 3)</p> <p style="text-align: center;">735</p>



## Management Discussion and Analysis

Business objectives	Planned use of proceeds (HK\$'000)	Actual use of proceeds (HK\$'000)
3. Enhancement of the research and development capabilities by the following ways:		
– procurement of testing equipment and raw materials for the existing product portfolio	300	350
– recruitment of additional research and development staff	300	139 (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
	16,495	7,526

Note:

- Acquisition of hydraulic presses will be materialized in the first half of 2019 as sales orders of the composite subway evacuation platform products are expected to be received in 2019.
- 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 2019.
- 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.
- During the year ended 31 December 2018, one additional research and development staff was hired. It is expected that another suitable candidate with appropriate calibre would be hired in 2019.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Cheng Dong (成東)**, aged 43, is the chairman of the Board and was appointed as an executive Director on 16 March 2016. Mr. Cheng 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. He 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 the Group, since May 2013.

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

**Mr. Jiang Guitang (姜桂堂)**, aged 53, 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 other public listed company in the past three years.

## Biographical Details of Directors and Senior Management

**Ms. Shi Dongying (施冬英)**, aged 44, 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. She has over 20 years of accounting experience and 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 other public listed company in the past three years.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Huang Xin (黃昕)**, aged 36, 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 worked as 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) from July 2015 to June 2017. He is currently a partner in Shanghai GuSheng Investment Management Co., Ltd. (上海谷笙投資管理有限公司), mainly responsible for assets management and capital operation.

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

## Biographical Details of Directors and Senior Management

**Mr. Tam Tak Kei Raymond (譚德機)**, aged 55, 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 was the company secretary of Branding China Group Limited (stock code: 863) from April 2013 to April 2018 and 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 other public listed company in the past three years.

**Mr. Ng Sai Leung (吳世良)**, aged 46, 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

## Biographical Details of Directors and Senior Management

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 was 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 other public listed companies in the past three years.

### SENIOR MANAGEMENT

**Mr. Ng Chi Ho Dennis (吳志豪)**, aged 60, 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 Kirin Group Holdings Limited (stock code: 8109), a non-executive director of My Heart Bodibra Group Limited (stock code: 8297), the shares of which 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 other listed companies over the past three years.



## Biographical Details of Directors and Senior Management

**Mr. Liu Dansheng (劉旦生)**, aged 51, 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 establishing good corporate governance and adopting 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 2018, 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 and independent non-executive Directors has entered into a service agreement with the Company for a term of three and two years respectively until terminated by either the Company or the executive/independent non-executive Director giving each other a two months' notice in writing in accordance with the terms of the agreement.

In accordance with Article 108(a) of the articles of association of the Company, at each annual general meeting, at least one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Mr. Tam Tak Kei Raymond and Mr. Ng Sai Leung will retire from office as independent non-executive 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 brings 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 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.

## BOARD DIVERSITY POLICY

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 various 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.

# Corporate Governance Report

## NOMINATION POLICY

The Board has adopted a director nomination policy (the “Nomination Policy”) on 31 December 2018 in relation to the nomination, appointment, re-appointment of new Directors and the nomination procedure of the Company, which provides that in evaluating and selecting any candidate for directorship, the Nomination Committee shall consider the candidates’ character and integrity, professional qualifications, skills, knowledge and experience, independence, diversity on the Board, willingness to devote adequate time to discharge duties as a Board member and such other criteria that are appropriate to the business of the Company.

## DIVIDEND POLICY

The Board has adopted a dividend policy (the “Dividend Policy”) on 31 December 2018. A summary of the Dividend Policy is disclosed as below.

Subject to the approval of the Shareholders and requirement of the relevant law, the Company shall pay annual dividends to the Shareholders if the Group is profitable, operations environment is stable and there is no significant investment or commitment made by the Group, after taking into account the factors as detailed below and determined by the Board from time to time. The remaining net profits will be used for Group’s development and operations. The Dividend Policy allows the Company to declare special dividends from time to time in addition to the annual dividends.

In proposing any dividend payout, the Board shall also take into account, inter alia, (i) the Company’s actual and expected financial performance; (ii) retained earnings and distributable reserves of the Group; (iii) the level of the Group’s debts to equity ratio, return on equity and the relevant financial covenants; and (iv) the general economic conditions, business cycle of the Group’s business and other internal and external factors that may have an impact on the business or financial performance and position of the Company.

Any final dividends declared by the Company must be approved by an ordinary resolution of Shareholders at an annual general meeting and must not exceed the amount recommended by the Board. The Dividend Policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

# Corporate Governance Report

## CONTINUOUS PROFESSIONAL DEVELOPMENT

The Group acknowledges the importance of continuing professional development for the Directors for the enhancement of corporate governance and internal control systems. 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 2018, the continuous professional development taken by respective Directors are as follows:

	<b>Corporate governance, rules and regulations (including directors' duties)</b>	<b>Financial, management and other business skills and knowledge</b>
<b>Executive Directors</b>		
Mr. Cheng Dong	✓	✓
Mr. Jiang Guitang	✓	✓
Ms. Shi Dongying	✓	✓
<b>Independent Non-executive Directors</b>		
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.



# Corporate Governance Report

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 2018 are as follows:

## Attendance

### Executive Directors

Mr. Cheng Dong	5/5
Mr. Jiang Guitang	5/5
Ms. Shi Dongying	5/5

### Independent Non-executive Directors

Mr. Huang Xin	5/5
Mr. Tam Tak Kei Raymond	5/5
Mr. Ng Sai Leung	5/5

## 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 the Group.

## AUDIT COMMITTEE

The Company established an audit committee on 16 December 2016 with written terms of reference pursuant 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.

## Corporate Governance Report

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 2018 have been reviewed by the audit committee. There was no disagreement between the Board and the audit committee regarding selection and appointment of the external auditor in respect of the year ended 31 December 2018.

The audit committee held four meetings during the year ended 31 December 2018, at which the audited annual results of the Group for the year ended 31 December 2017, the unaudited quarterly and interim results of the Group for the year ended 31 December 2018 and other matters related to the financial and accounting policies and practice were discussed and reviewed. The audit committee also reviewed the internal control review report prepared by the independent professional advisor and put forward relevant recommendations to the Board. In addition, the audit committee fulfilled its responsibilities in corporate governance and in monitoring the effectiveness of the auditing process and the independence of the auditor at the meetings held during the year ended 31 December 2018. Individual attendance of each committee member at the meetings during the year ended 31 December 2018 is as follows:

	<b>Attendance</b>
Mr. Ng Sai Leung (Chairman)	4/4
Mr. Tam Tak Kei Raymond	4/4
Mr. Huang Xin	4/4

# Corporate Governance Report

## REMUNERATION COMMITTEE

The Company established a remuneration committee on 16 December 2016 with written terms of reference pursuant 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 terms of reference setting out the remuneration committee's authorities, duties and responsibilities are available on the websites of the Company and the Stock Exchange.

The members of the remuneration committee should meet at least once a year. During the year ended 31 December 2018, the remuneration committee held one meeting, at which the Group's overall remuneration practices and scale and other remuneration-related matters in respect of the Directors and senior management were discussed and reviewed. Individual attendance of each committee member at the meeting is as follows:

	<b>Attendance</b>
Mr. Tam Tak Kei Raymond (Chairman)	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 pursuant 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 review the structure, size and composition of the Board; identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; review the time commitment required of the Directors and evaluate whether the Directors have committed adequate time to discharge their responsibilities; review and implement the Nomination Policy; and make recommendations to the Board on relevant matters regarding the appointment or re-appointment of Directors. The terms of reference setting out the nomination committee's authorities, duties and responsibilities are available on the websites of the Company and the Stock Exchange.

## Corporate Governance Report

The members of the nomination committee should meet at least once a year. During the year ended 31 December 2018, the nomination committee held one meeting, at which the structure, size and composition (including the skills, knowledge and experience) of the Board members were reviewed. It also assessed the independence of the independent non-executive Directors and recommended the re-election of the retired Directors at the annual general meeting of the Company. Individual attendance of each committee member at the meeting is as follows:

	<b>Attendance</b>
Mr. Huang Xin (Chairman)	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, an 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 terms of reference setting out the risk management committee's authorities, duties and responsibilities are available on the website of the Company.

The members of the risk management committee should meet at least once a year. During the year ended 31 December 2018, the risk management committee held one meeting. Individual attendance of each committee member at the meeting is as follows:

	<b>Attendance</b>
Ms. Shi Dongying (Chairman)	1/1
Mr. Cheng Dong	1/1
Mr. Tam Tak Kei Raymond	1/1

# Corporate Governance Report

## COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed KGI Capital Asia Limited as its compliance adviser (the "Compliance Adviser"). Pursuant to Rule 6A.23 of the GEM Listing Rules, the Company will consult with and seek advice from the Compliance Adviser on a timely basis in matters, including among others, (i) publication of regulatory announcements, circulars or financial reports; (ii) contemplation of notifiable or connected transactions; (iii) change in the use of proceeds from placing of 100,000,000 shares of the Company on 13 January 2017 (the "Listing Date") 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 2018, 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.

# Corporate Governance Report

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. 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 53 to 58 of this report.

## AUDITOR'S REMUNERATION

During the year, remuneration paid/payable to auditor of the Company for audit services is approximately RMB755,000 (2017: 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 include a defined management structure with limits of authority, which are designed to help to achieve business objectives, safeguard assets against unauthorized 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.

# Corporate Governance Report

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 2018, the Group complied with the code provisions of the CG Code 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 for the year ended 31 December 2018. The Directors were satisfied that the internal control systems as appropriate to the Group for the year ended 31 December 2018 were implemented properly and that no significant areas of weaknesses came into attention.

The Group complies with the requirements of Securities and Futures Ordinance (the "SFO") and the GEM Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that the information contained in announcements are not false or misleading through presentation of information in a clear and fair manner.

## 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.



# Corporate Governance Report

In accordance with code provision E.1.2 of the CG Code, attendance of members of the Board to the AGM held on 24 May 2018 is as follows:

	<b>Attendance</b>
<b>Executive Directors</b>	
Mr. Cheng Dong	✓
Mr. Jiang Guitang	✓
Ms. Shi Dongying	✓
<b>Independent Non-executive Directors</b>	
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 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 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.

# Corporate Governance Report

## 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 the Shareholders. Such policy aims to set out the provisions with the objective of ensuring that the 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 the Shareholders to exercise their rights in an informed manner, and to allow the 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 2018.

# Environmental, Social and Governance Report

## 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) composite 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 2018, air emission for nitrogen oxides ("NOx"), sulphur oxides ("SOx") and respiratory suspended particles ("RSP", also known as Particulate Matter ("PM")) were about 1.02 kg, 0.19 kg and 0.08 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 gases emissions from Scope 1, Scope 2 and Scope 3 for the year ended 31 December 2018 were 34,443.31 kg, 1,130,217.6 kg and 7,351.61 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 stores dangerous goods would always be locked and lights are switched off when the warehouse is closed.

# Environmental, Social and Governance Report

## *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 are 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 a policy to improve the manufacturing efficiency and reduce error productions so as 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 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.

# Environmental, Social and Governance Report

The following non-hazardous waste produced was recorded in the year ended 31 December 2018:

- Non-hazardous waste produced: 26 tons
- Non-hazardous waste produced intensity: 0.006 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 2018, the Group has complied with applicable environmental laws and regulations such as Environmental Protection Law of the People's Republic of China《中華人民共和國環境保護法》, Prevention and Control of Atmospheric Pollution Law of the People's Republic of China《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 fibreglass into mould, 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;

# Environmental, Social and Governance Report

- 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 2018:

	<b>2018</b>	<b>2017</b>
electricity consumption	1,404,695 kWh	1,438,359 kWh
electricity consumption intensity	0.33 kWh per kg of products	0.37 per kg of product
water consumption	26,918 tons	28,656 tons
water consumption intensity	0.0064 tons per kg of products	0.0074 ton per kg of product
packaging material used	50.8 tons	51.8 tons
packaging material used intensity	0.12 kg per kg of products	0.13 kg per kg of product

As a result of implementing measures to lower the consumption of natural resources, such as the installation of new equipment that assists with the sustainability, during the reporting period, the consumption and intensity of consumption in electricity, water and packing materials had in general reduced.

### **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 productions. However, for a further reduction on the environmental impact and use of natural resources, the Group would continue to make an 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.

# Environmental, Social and Governance Report

## 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 People's Republic of China 《中華人民共和國勞動法》, Labour Contract Law of People's Republic of China 《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.

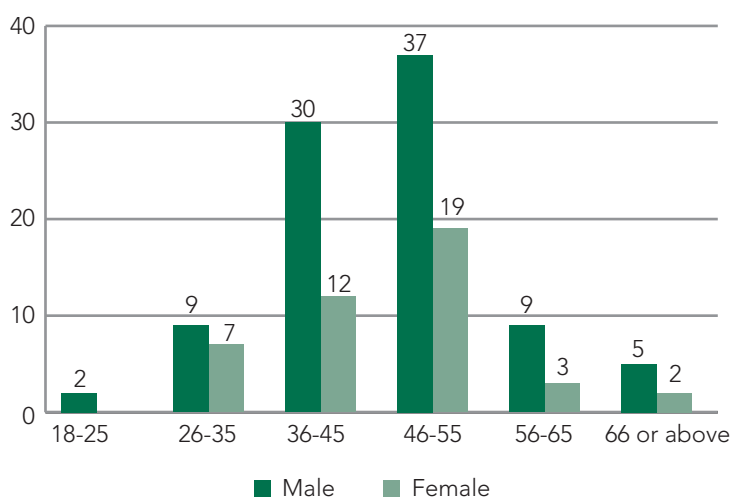
Social activities such as annual dinner, team building and other social events are organized for employees to participate to increase their work-life balance and enhance the relationship with employees. Accommodation and meals are also provided for employees.

#### *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, gender 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 2018.

The charts below show the gender, age group and service period of staff:

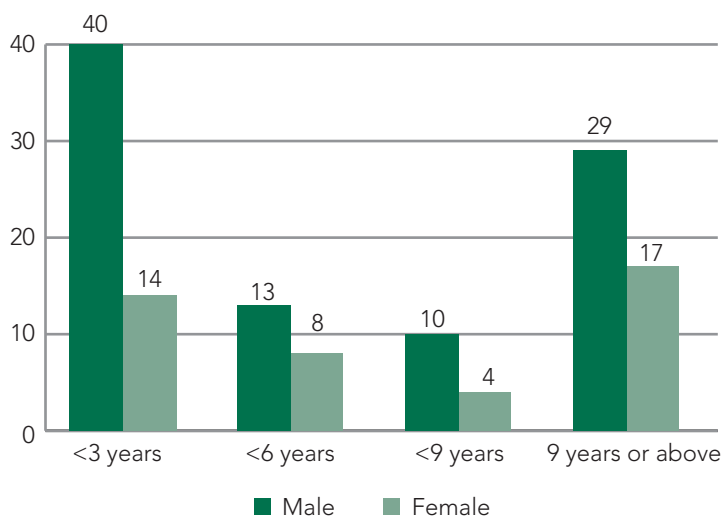
**Workforce distribution by age group**





# Environmental, Social and Governance Report

**Workforce distribution by service period**



For the year ended 31 December 2018, the Group employed about 135 (2017: 135) employees. The male/female composition ratio of the Group is 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.

During the year ended 31 December 2018, the overall staff turnover rate is about 25% which is mainly due to the changes in the number of part-time workers in workshop, which were hired for ad-hoc production projects. The Group did not encounter any resignation of office staff.

## **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 People's Republic of China 《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 2018, the Group has reported zero work-related fatalities and work injuries.

# Environmental, Social and Governance Report

## 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 with respect 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. On-job training is provided for workers while specific management training is provided to managers and officers. There are also regular annual appraisals to assess staff performance with their supervisors.

## B.4 Labour Standards

### *Child labour and forced labour*

Under the Labour Contract Law of the People's Republic of China 《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 2018, 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 reaching the standard of safety and quality of its products. A quality supply chain has been set up to ensure high-quality products for customers. In order to minimise the transportation required, all the suppliers are located in Mainland China, especially the cities and provinces nearby, such as Jiangsu province, Zhejiang province and Shanghai. 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;

# Environmental, Social and Governance Report

- 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 2018, 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 People's Republic of China 《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 People's Republic of China 《中華人民共和國刑法》, the Anti-Unfair Competition Law of the People's Republic of China 《中華人民共和國反不正當競爭法》 and other relevant laws and regulations. The staff manual provides guidance on employees' behaviours, for example the acceptance of gifts and conflict of interests, to further enhance the awareness of employees. The Group encourages staff to report suspected corruption cases.

During the year ended 31 December 2018, the Group was not aware of any incidence of non-compliance with anti-corruption and money laundering.

# Environmental, Social and Governance Report

## **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 the community; and
- The Group is committed to providing career opportunities to the locals and promoting the development of the community's economy.

# Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

## 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 fiberglass reinforced plastic products in the PRC. The Company acts as an investment holding company. The principal business of the Group is carried out through Nantong Meigu Composite Materials Company Limited, which is an indirect wholly-owned subsidiary of the Company incorporated in the PRC.

## RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 59 of this annual report.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2018 (2017: 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 11 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 25(a) to the consolidated financial statements of this annual report.

# Directors' 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 62 of this annual report.

The Company's reserves available for distribution to the shareholders as at 31 December 2018 amounted to RMB40,041,000 (2017: RMB39,157,000).

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the last five financial years is set out on page 148 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, Mr. Tam Tak Kei Raymond and Mr. Ng Sai Leung will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

## DIRECTORS' SERVICE CONTRACTS

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

# Directors' Report

## 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 2018, the interests and short positions of the Directors and chief executive of the Company in Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO) which 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 ordinary 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	163,600,000	40.9%

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.



## Directors' Report

- Pursuant to the concert party deed (the "Concert Party Deed") entered into among Mr. Shen Weixing ("Mr. Shen"), Mr. Jiang, Musing Developments Limited ("Musing") and Singa dated 16 December 2016, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Repurchases) since 1 January 2014, and that Mr. Shen, Mr. Jiang, Musing and Singa are parties acting in concert until the date of any written termination by them. As such, Mr. Jiang, together with Mr. Shen, Musing and Singa controlled 40.9% of the entire share capital of the Company as at 31 December 2018.

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

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

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this 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.

## Directors' Report

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

As at 31 December 2018, so far as is known to the Directors, the interests and short positions of the persons or corporations (other than a Director or chief executive of the Company) in the shares or underlying shares 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 ordinary 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	163,600,000	40.9%
Munsing (Notes 1 and 2)	interest held jointly with other persons; beneficial owner	163,600,000	40.9%
Singa (Note 2)	interest held jointly with other persons; beneficial owner	163,600,000	40.9%
Ms. Gong Hui (Note 3)	interest of spouse	163,600,000	40.9%
Ms. Chen Lijuan (Note 4)	interest of spouse	163,600,000	40.9%
Mr. Huang Xuechao	beneficial owner	118,400,000	29.6%

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 Repurchases) 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 controlled 40.9% 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.

## Directors' Report

- 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.

Save as disclosed above, as at 31 December 2018, no other persons (other than the Directors and chief executive of the Company) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, sales to the Group's five customers accounted for 43.0% (2017: 37.2%) 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 11.1% (2017: 8.3%).

For the year ended 31 December 2018, purchases from the Group's five suppliers accounted for 40.5% (2017: 47.5%) 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 20.2% (2017: 13.8%).

None of the Directors of the Company, or any of their associates or any other shareholders, which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers during the year ended 31 December 2018.

### 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 the existing Shareholders.

# Directors' Report

## PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2018 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 2018.

## COMPETING INTERESTS

The Directors confirm that none of the controlling shareholders, namely Mr. Shen, Mr. Jiang, Musing 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 2018 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 its subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its close associates (other than any member of 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.

## Directors' Report

During the year ended 31 December 2018, 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 2018.

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **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 number of issued shares 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 35 of this annual report.

### **AUDITOR**

The consolidated financial statements for the year ended 31 December 2018 have been audited by Crowe (HK) CPA Limited ("Crowe"). Crowe 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, 22 March 2019

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

(Incorporated in the Cayman Islands with limited liability)



國富浩華（香港）會計師事務所有限公司  
**Crowe (HK) CPA Limited**  
香港 銅鑼灣 禮頓道77號 禮頓中心9樓  
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 59 to 147, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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.

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

(Incorporated in the Cayman Islands with limited liability)

## 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
<p><b>Impairment of contract assets and trade and bills receivables</b> (Refer to Notes 2(h)(i), 16, 17, 26(a) and 29(b)(i) to the consolidated financial statements.)</p> <p>At 31 December 2018, contract assets amounted to approximately RMB4.4 million, net of nil provision, and trade and bills receivables amounted to approximately RMB49.4 million, net of provision for impairment of approximately RMB1.4 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 28.4% of its total contract assets and trade and bills receivables at 31 December 2018. 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.</p> <p>Management's judgement and inherent estimation uncertainty are involved in determining the provision for contract assets, trade and bills receivables and in assessing its adequacy through considering the expected recoverability of the year-end trade and bills receivables.</p>	<p>We reviewed and challenged the assumptions applied by management in estimating the provision for impairment against contract assets and trade and bills receivables at the year end. This included:</p> <ul style="list-style-type: none"> <li>– reviewing the Group's credit control and debt recovery procedures and actions taken to monitor and collect the contract assets and trade and bills receivables;</li> <li>– reviewing historical settlement history of the customers and testing subsequent cash receipts from the customers after the year end;</li> <li>– assessing ageing analysis for contract assets and trade and bills receivables by customers and updated creditworthiness of the customers;</li> <li>– 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;</li> <li>– reviewing the management's assessment on expected credit loss on contract assets and trade and bills receivables, in particular challenging the reasonableness of the provision matrix by reference to historical default risk, payment history and creditworthiness of the customers, and other forward looking information; and</li> <li>– checking the accuracy of calculation of the required provision for the expected credit losses on contract assets and trade and bills receivables.</li> </ul> <p>We also assessed the Group's disclosures in respect of contract assets and trade and bills receivables in notes 16, 17 and 26(a) to the consolidated financial statements.</p>



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

(Incorporated in the Cayman Islands with limited liability)

## KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter	How the matter was addressed in our audit
<p><b>Inventory provisioning</b> (refer to Notes 2(i), 14 and 29(b)(iii) to the financial statements)</p> <p>At 31 December 2018, inventories amounted to approximately RMB6.9 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, competitors' activities including pricing and the introduction of new competing products.</p> <p>The risk is that there may not be adequate provisions of write-down against obsolete and slowing moving inventory at the year end.</p> <p>The Group's inventory provisioning process requires judgemental estimates made by management.</p>	<p>We reviewed and challenged the assumptions applied by the management of the Group in estimating the inventory provisioning at the year end. This included:</p> <ul style="list-style-type: none"> <li>- performing review of the ageing analysis of the inventory reports to identify any issues in respect of slow-moving items of the inventories;</li> <li>- 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;</li> <li>- 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</li> <li>- checking that the inventories are stated at the lower of cost and net realisable value of the inventories.</li> </ul> <p>We also assessed the Group's disclosures in respect of inventories in note 14 to the consolidated financial statements.</p>

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

(Incorporated in the Cayman Islands with limited liability)

## 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.

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

(Incorporated in the Cayman Islands with limited liability)

## 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 HKSA's 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 HKSA's, 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.

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

(Incorporated in the Cayman Islands with limited liability)

## AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- 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 (HK) CPA Limited**

*Certified Public Accountants*

Hong Kong, 22 March 2019

### **Leung Chun Wa**

Practising Certificate Number P04963

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	3	74,584	68,188
Cost of sales		(50,923)	(43,594)
<b>Gross profit</b>		<b>23,661</b>	24,594
Other revenue	4	496	1,918
Other net gain/(loss)	4	25	(1,034)
Distribution costs		(5,614)	(6,661)
Listing expenses	5(c)	–	(1,343)
Administrative expenses		(13,497)	(12,409)
<b>Profit from operations</b>		<b>5,071</b>	5,065
Finance costs	5(a)	(1,073)	(1,122)
<b>Profit before taxation</b>	5	<b>3,998</b>	3,943
Income tax	6(a)	(2,528)	(3,260)
<b>Profit for the year</b>		<b>1,470</b>	683
<b>Other comprehensive income for the year</b>		<b>–</b>	–
<b>Total comprehensive income for the year</b>		<b>1,470</b>	683
		<b>RMB cents</b>	RMB cents
<b>Earnings per share</b>			
Basic and diluted	9	0.37	0.17

# Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	11	17,093	14,549
Leasehold land held for own use under operating lease	12	1,398	1,436
Deferred tax assets	22(b)	350	390
		<u>18,841</u>	<u>16,375</u>
<b>Current assets</b>			
Inventories	14	6,863	8,337
Property held for sale	15	1,468	1,468
Contract assets	16(a)	4,444	–
Trade and other receivables	17	49,444	52,040
Financial assets at fair value through other comprehensive income	19	5,000	–
Pledged bank deposits	13	50	1,059
Cash and cash equivalents	18(a)	6,170	11,324
		<u>73,439</u>	<u>74,228</u>
<b>Current liabilities</b>			
Trade and other payables	20	21,773	18,280
Contract liabilities	16(b)	93	–
Bank borrowings	21	15,000	20,000
Income tax payable	22(a)	2,980	2,397
		<u>39,846</u>	<u>40,677</u>
<b>Net current assets</b>		<u>33,593</u>	<u>33,551</u>
<b>Total assets less current liabilities</b>		<u>52,434</u>	<u>49,926</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	22(c)	3,167	2,529
		<u>3,167</u>	<u>2,529</u>
<b>NET ASSETS</b>		<u><u>49,267</u></u>	<u><u>47,397</u></u>

# Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
<b>CAPITAL AND RESERVES</b>			
Share capital	25(a)	3,600	3,600
Reserves		45,667	43,797
<b>TOTAL EQUITY</b>		<b>49,267</b>	47,397

Approved and authorised for issue by the board of directors of the Company on 22 March 2019.

On behalf of the board

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**Jiang Guitang**  
Director

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**Shi Dongying**  
Director

The notes on pages 65 to 147 form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Reserves							Total equity RMB'000
	Share capital RMB'000 (Note 25(a))	Share premium RMB'000 (Note 25(b))	Capital reserve RMB'000 (Note 25(c))	Share-based payment services RMB'000 (Note 25(d))	Statutory reserve RMB'000 (Note 25(e))	Retained profits RMB'000	Sub-total RMB'000	
<b>At 1 January 2017</b>	-	-	9,557	333	3,258	8,666	21,814	21,814
Profit and total comprehensive income for the year	-	-	-	-	-	683	683	683
Issuance of shares upon listing (note 25(a)(ii))	886	30,136	-	-	-	-	30,136	31,022
Issuance cost (note 25(a)(ii))	-	(6,522)	-	-	-	-	(6,522)	(6,522)
Capitalisation Issue (note 25(a)(ii))	2,714	(2,714)	-	-	-	-	(2,714)	-
Equity-settled share-based payments	-	-	-	400	-	-	400	400
Transfer to statutory reserve	-	-	-	-	649	(649)	-	-
<b>At 31 December 2017</b>	<b>3,600</b>	<b>20,900</b>	<b>9,557</b>	<b>733</b>	<b>3,907</b>	<b>8,700</b>	<b>43,797</b>	<b>47,397</b>
<b>At 1 January 2018</b>	<b>3,600</b>	<b>20,900</b>	<b>9,557</b>	<b>733</b>	<b>3,907</b>	<b>8,700</b>	<b>43,797</b>	<b>47,397</b>
Profit and total comprehensive income for the year	-	-	-	-	-	1,470	1,470	1,470
Equity-settled share-based payments	-	-	-	400	-	-	400	400
Transfer to statutory reserve	-	-	-	-	586	(586)	-	-
<b>At 31 December 2018</b>	<b>3,600</b>	<b>20,900</b>	<b>9,557</b>	<b>1,133</b>	<b>4,493</b>	<b>9,584</b>	<b>45,667</b>	<b>49,267</b>

The notes on pages 65 to 147 form an integral part of these consolidated financial statements.



# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
<b>Operating activities</b>			
Profit before taxation		<b>3,998</b>	3,943
Adjustments for:			
– Depreciation of property, plant and equipment	5(c)	<b>1,918</b>	1,717
– Amortisation of interest in leasehold land held for own use under operating lease	5(c)	<b>38</b>	38
– Impairment loss on trade and bills receivables	5(c)	<b>555</b>	118
– Interest income	4	<b>(49)</b>	(22)
– Finance costs	5(a)	<b>1,073</b>	1,122
– Equity-settled share-based payment	5(b)	<b>400</b>	400
<b>Operating cash flows before changes in working capital</b>		<b>7,933</b>	7,316
<b>Changes in working capital</b>			
Decrease/(increase) in inventories		<b>1,474</b>	(5,067)
Increase in trade, bills and other receivables		<b>(9,145)</b>	(12,639)
Decrease in contract assets		<b>6,742</b>	–
Decrease/(increase) in pledged bank deposit		<b>1,009</b>	(546)
Increase/(decrease) in trade, bills and other payables		<b>3,950</b>	(3,589)
Decrease in contract liabilities		<b>(364)</b>	–
<b>Cash generated from/(used in) operations</b>		<b>11,599</b>	(14,525)
Income taxes paid		<b>(1,267)</b>	(1,933)
<b>Net cash generated from/(used in) operating activities</b>		<b>10,332</b>	(16,458)
<b>Investing activities</b>			
Payments for the purchase of property, plant and equipment		<b>(4,462)</b>	(1,730)
Payment for the purchase of financial assets at fair value through other comprehensive income		<b>(9,000)</b>	–
Proceeds from the sales of financial assets at fair value through other comprehensive income		<b>4,000</b>	–
Interest received		<b>49</b>	22
<b>Net cash used in investing activities</b>		<b>(9,413)</b>	(1,708)

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
<b>Financing activities</b>			
Proceeds from issuance of shares	25(a)(ii)	–	31,022
Cost of issuing shares	25(a)(ii)	–	(1,554)
Proceeds from new bank loans	18(b)	<b>15,000</b>	20,000
Repayment of bank loans	18(b)	<b>(20,000)</b>	(20,000)
Interest paid		<b>(1,073)</b>	(1,122)
Decrease in amount due to a shareholder		–	(2,714)
		<hr/>	<hr/>
<b>Net cash (used in)/generated from financing activities</b>		<b>(6,073)</b>	25,632
		<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5,154)</b>	7,466
		<hr/>	<hr/>
<b>Cash and cash equivalents at 1 January</b>		<b>11,324</b>	3,858
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	18(a)	<b>6,170</b>	11,324
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 65 to 147 form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 1. GENERAL INFORMATION

MEIGU Technology Holding Group Limited was incorporated in the Cayman Islands on 13 January 2016 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares have been listed on GEM of the Stock Exchange since 13 January 2017. The address of its registered office is 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 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. 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"), the collective term of which 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. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

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 31.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). Renminbi (“RMB”) is the functional currency of all entities of the Group. 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.

Non-current assets held for sales are stated at the lower of carrying amount and fair value less costs to sell (see Note 2(k))

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 29.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers

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

#### (i) *HKFRS 9, Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group assessed that the cumulative effect of initial application was not material. Therefore no adjustment to the opening equity at 1 January 2018 was made. Comparative information continues to be reported under HKAS 39.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Changes in accounting policies *(Continued)*

#### (i) HKFRS 9, Financial instruments *(Continued)*

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

##### a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These superseded HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Changes in accounting policies (Continued)

#### (i) HKFRS 9, Financial instruments (Continued)

##### a. Classification of financial assets and financial liabilities (Continued)

	HKAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	HKFRS 9 carrying amount at 1 January 2018 RMB'000
<b>Financial assets carried at amortised cost</b>			
Trade and other receivables (note (i))	52,040	(11,186)	40,854

Note:

- (i) Trade and other receivables of RMB11,186,000 were reclassified to contract assets at 1 January 2018 as a result of the initial application of HKFRS 15.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 2(h)(i), (l), (o) and (y).

The measurement categories for all financial liabilities remain the same.

The Group did not designate any financial asset or financial liability at FVPL at 1 January 2018.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Changes in accounting policies *(Continued)*

#### (i) HKFRS 9, Financial instruments *(Continued)*

##### b. Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);
- contract assets as defined in HKFRS 15, when the receivables are not unconditional (e.g. retention money withheld by customers who will settle with the Group upon the customers’ satisfaction of the final check and inspection of the transferred goods at the end of the assurance-type warranty periods);

For further details on the group’s accounting policy for accounting for credit losses, see note 2(h).

##### c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Changes in accounting policies *(Continued)*

#### (i) HKFRS 9, Financial instruments *(Continued)*

##### c. Transition *(Continued)*

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

#### (ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has assessed that the cumulative effect of initial application was immaterial, and accordingly, no adjustment is made to the opening balance of equity. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

##### a. Timing of revenue recognition

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good in the contract, which is taken as single point in time and the customers have taken acceptance of the goods transferred by the Group.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises its revenue.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Changes in accounting policies *(Continued)*

#### (ii) HKFRS 15, Revenue from contracts with customers *(Continued)*

##### b. Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers. Accordingly, this change in policy does not have a significant impact on the financial assets and liabilities as at 1 January 2018.

##### c. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2(s)) before being unconditionally entitled to the consideration for the promised goods in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract assets were presented in the statement of financial position under "trade and other receivables" and contract liabilities were presented under "trade and other payables".

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Changes in accounting policies *(Continued)*

#### (ii) HKFRS 15, Revenue from contracts with customers *(Continued)*

##### c. Presentation of contract assets and liabilities *(Continued)*

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

- (i) Retention monies amounting to RMB11,186,000, which were previously included in trade and other receivables (note 17) are now included under contract assets (note 16(a)); and
- (ii) Advances received amounting to RMB457,000, which were previously included in trade and other payables (note 20) are now included under contract liabilities (note 16(b)).

##### d. Transportation costs

Before the adoption of HKFRS 15, transportation costs were treated as distribution costs. Under HKFRS 15, the amount is classified to cost of sales as it constitutes contract cost to fulfill the performance obligation of sales of products to customers.

##### e. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Changes in accounting policies (Continued)

#### (ii) HKFRS 15, Revenue from contracts with customers (Continued)

- e. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018 (Continued)

	Amounts reported in accordance with HKFRS 15 (A) RMB'000	Hypothetical amounts under HKASs 18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) RMB'000
<b>Line items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:</b>			
Cost of sales	(50,923)	(49,398)	1,525
Gross profit	23,661	25,186	(1,525)
Distribution costs	(5,614)	(7,139)	(1,525)
<b>Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:</b>			
Contract assets	4,444	-	4,444
Trade and other receivables	49,444	53,888	(4,444)
Trade and other payables	(21,773)	(21,866)	93
Contract liabilities	(93)	-	(93)
<b>Line items in the consolidated statement of cash flow for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:</b>			
Increase in trade, bills and other receivables	(9,145)	(2,403)	(6,742)
Decrease in contract assets	6,742	-	6,742
Increase in trade, bills and other payables	3,950	3,586	364
Decrease in contract liabilities	(364)	-	(364)

The significant differences arise as a result of the changes in accounting policies described above.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Subsidiaries and non-controlling interests

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e)(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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e)(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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **(e)(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.

### **(f) 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 2(h)(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) 3 to 10 years
- furniture and fixtures 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) **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.

### (g) **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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) 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.

### (h) Credit losses and impairment of assets

#### (i) Credit losses from financial instruments, contract assets

##### (A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);
- contract assets as defined in HKFRS 15 when the receivables are not unconditional (e.g. retention money withheld by customers); and
- debt securities measured at FVOCI (recycling).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments, contract assets *(Continued)*

##### (A) Policy applicable from 1 January 2018 *(Continued)*

###### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments, contract assets *(Continued)*

##### (A) Policy applicable from 1 January 2018 *(Continued)*

##### Measurement of ECLs *(Continued)*

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments, contract assets *(Continued)*

##### (A) Policy applicable from 1 January 2018 *(Continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments, contract assets *(Continued)*

##### (A) Policy applicable from 1 January 2018 *(Continued)*

Significant increases in credit risk *(Continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments, contract assets *(Continued)*

##### (A) Policy applicable from 1 January 2018 *(Continued)*

Basis of calculation of interest income

Interest income recognised in accordance with note 2(s)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments and contract assets *(Continued)*

##### (A) Policy applicable from 1 January 2018 *(Continued)*

###### Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

##### (B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an “incurred loss” model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the “incurred loss” model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

- significant financial difficulties 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;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments and contract assets *(Continued)*

##### (B) Policy applicable prior to 1 January 2018 *(Continued)*

- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

- For trade and other receivables and other financial assets carried at amortised cost, impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Credit losses and impairment of assets *(Continued)*

(i) *Credit losses from financial instruments and contract assets (Continued)*

(B) Policy applicable prior to 1 January 2018 *(Continued)*

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Credit losses and impairment of assets *(Continued)*

#### (ii) *Impairment of other non-current 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 or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- leasehold land held for own use under operating lease; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- 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 if 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 value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Credit losses and impairment of assets *(Continued)*

#### (ii) *Impairment of other non-current assets (Continued)*

##### – 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. An impairment loss in respect of goodwill is not reversed.

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.

#### (iii) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) Inventories and other contract costs

#### (i) *Inventories*

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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.

#### (ii) *Other contract costs*

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see note 2(i)(i)) and property, plant and equipment (see note 2(f)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) Inventories and other contract costs *(Continued)*

#### (ii) Other contract costs *(Continued)*

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 2(s).

### (j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(s)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(l)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(s)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) 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 2.

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.

### (l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(h)(i)).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) 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 using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(u)).

### (n) Trade and other payables

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

### (o) 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. Cash and cash equivalents are assessed for expected credit loss (ECL) in accordance with the policy set out in note 2(h)(i).

### (p) 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Employee benefits *(Continued)*

#### (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 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 shares or 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 that is 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).

#### (iv) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Employee benefits *(Continued)*

#### (iv) Defined benefit retirement plan obligations *(Continued)*

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and allocated by function as part of "cost of sales", "distribution costs" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) 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 losses 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) **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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) 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.

### (s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Revenue and other income *(Continued)*

Further details of the Group's revenue and other income recognition policies are as follows:

#### (i) Sale of goods

Sales of the Group's goods are recognised as follows:

Revenue is recognised when the customer takes control of the goods transferred by the Group.

Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

In the comparative period, revenue from sales of goods was recognised when the goods were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership. No adjustments have been made to opening balances as at 1 January 2018 as all revenues recognized were standardised.

#### (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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) 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.

### (u) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (w) 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.

### (x) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (y) Investments in bank wealth management products

Investments in bank wealth management products are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs.

These non-equity investments held by the Group are classified into fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

The Group had no investment in bank wealth management products prior to 1 January 2018.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3. REVENUE

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

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

	<b>2018</b> <b>(Note)</b> <b>RMB'000</b>	2017 RMB'000
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Sales of fiberglass reinforced plastic products		
– fiberglass reinforced plastic grating	<b>55,541</b>	42,043
– phenolic grating	<b>2,919</b>	8,112
– composite subway evacuation platform	<b>1,912</b>	4,067
– epoxy wedge strip	<b>12,749</b>	9,596
– fiberglass reinforced plastic crossties	<b>1,463</b>	4,370
	<b>74,584</b>	68,188
<b>Timing of revenue recognition</b>		
A point in time	<b>74,584</b>	68,188

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 10(a).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 4. OTHER REVENUE AND OTHER NET INCOME

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
<b>Other revenue</b>		
Interest income on bank deposits	<b>21</b>	22
Interest income on financial assets at fair value through other comprehensive income	<b>28</b>	–
Total interest income on financial assets not at fair value through profit or loss	<b>49</b>	22
Government grants and other subsidies (note below)	<b>447</b>	1,896
	<b>496</b>	1,918
<b>Other net gain/(loss)</b>		
Net foreign exchange gain/(loss)	<b>580</b>	(916)
Impairment loss on trade and bills receivables (Note 17(b))	<b>(555)</b>	(118)
	<b>25</b>	(1,034)

Note:

Included in government grants and other subsidies was RMB200,000 (2017: RMB1,700,000) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
<b>(a) Finance costs</b>		
Interest on bank borrowings	<b>1,073</b>	1,122
<b>(b) Staff costs (including directors' emoluments)</b>		
Salaries, wages and other benefits	<b>11,603</b>	10,443
Contributions to defined contribution retirement plans	<b>1,160</b>	1,061
Equity-settled share-based payments	<b>400</b>	400
	<b>13,163</b>	11,904
<b>(c) Other items</b>		
Amortisation for leasehold land (note 12)	<b>38</b>	38
Impairment loss on trade and bills receivables (note 17(b))	<b>555</b>	118
Depreciation of property, plant and equipment (note 11)	<b>1,918</b>	1,717
Cost of inventories recognised as expense (note (i))	<b>49,398</b>	43,594
Auditor's remuneration:		
– auditor of the Company	<b>755</b>	701
– other auditors (note (ii))	<b>28</b>	55
Listing expenses:		
– other professional parties	–	1,343
Research and development costs (note (iii))	<b>3,418</b>	3,541

Notes:

- (i) Cost of inventories recognised as expenses include RMB5,899,000 (2017: RMB5,889,000) relating to staff costs, and RMB1,204,000 (2017: RMB1,034,000) relating to depreciation of property, plant and equipment, for the year ended 31 December 2018, 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 RMB1,040,000 (2017: RMB833,000) and costs of materials consumed of RMB1,632,000 (2017: RMB2,114,000), the amounts of which are also included in the total amount separately disclosed for each of these types of expenses.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

### (a) Income tax recognised in profit or loss:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
<b>Current tax</b>		
The PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary		
– current year	<b>1,877</b>	2,601
– over-provision in prior years	<b>(27)</b>	(29)
	<b>1,850</b>	2,572
<b>Deferred tax</b>		
Origination and reversal of temporary differences in respect of		
– reversal of impairment loss/(impairment loss) on trade and bills receivables (note 22(b))	<b>40</b>	(29)
– withholding tax on distributable profits of the Group's PRC subsidiary (note 22(c))	<b>638</b>	717
	<b>678</b>	688
	<b>2,528</b>	3,260

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

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2018 and 2017, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years.

The PRC subsidiaries of the Group are subject to the PRC EIT at 25% (2017: 25%). Dividends declared to Prosperous Composite Material Co., Ltd. ("Prosperous Composite"), as a non-resident shareholder, in respect of profits earned by Nantong Meigu, is subject to the PRC withholding tax at 10%.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

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

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Profit before taxation	<b>3,998</b>	3,943
Notional tax on profit before taxation attributable to the subsidiaries under the tax jurisdiction of the PRC calculated at 25%	<b>1,850</b>	2,505
Notional tax on loss before taxation attributable to the non-PRC entities of the Group under the tax jurisdiction of Hong Kong calculated at 16.5%	<b>(296)</b>	(990)
Over-provision in prior years	<b>(27)</b>	(29)
Tax effect of non-deductible expenses	<b>363</b>	1,057
Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiary	<b>638</b>	717
Actual tax expense	<b>2,528</b>	3,260

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 7. 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 5(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
<b>2018</b>						
<b>Executive directors and chief executives</b>						
Shen Qixian*#	-	144	-	-	-	144
Lin Guangquan*	-	-	-	-	-	-
Jiang Guitang*#	-	197	-	53	400	650
Cheng Dong#	-	454	-	28	-	482
Shi Dongying#	-	105	-	28	-	133
	<u>-</u>	<u>900</u>	<u>-</u>	<u>109</u>	<u>400</u>	<u>1,409</u>
<b>Independent non-executive directors<sup>^</sup></b>						
Huang Xin	-	102	-	-	-	102
Tam Tak Kei Raymond	-	102	-	-	-	102
Ng Sai Leung	-	102	-	-	-	102
	<u>-</u>	<u>306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>306</u>
Total	<u>-</u>	<u>1,206</u>	<u>-</u>	<u>109</u>	<u>400</u>	<u>1,715</u>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 7. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVES (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
<b>2017</b>						
<b>Executive directors and chief executives</b>						
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
<b>Independent non-executive directors^</b>						
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

\* 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. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 7. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVES *(Continued)*

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 8 below) as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil). None of the directors of the Company or the top five highest paid individuals (note 8 below) waived any emoluments during the year (2017: Nil).

## 8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) are directors, Cheng Dong and Jiang Guitang, whose emoluments for the years ended 31 December 2018 and 2017 are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2017: three) individuals were as follows:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Basic salaries, allowances and other benefits	<b>943</b>	1,388
Employer's contributions to defined contribution retirement schemes	<b>39</b>	113
	<b>982</b>	1,501

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 9. EARNINGS PER SHARE

As of 1 January 2017, 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 per share for each of the years ended 31 December 2018 and 2017 is based on the following data:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
<b>Earnings for the purpose of basic earnings per share</b>		
Profit for the year attributable to the owners of the Company	<b>1,470</b>	683
	<b>'000</b>	'000
<b>Number of shares</b>		
Number of shares for the purpose of basic earnings per share at the beginning of the reporting period	<b>400,000</b>	300,000
Effect of shares issued under initial public offering	–	96,712
Number of shares for the purpose of basis earnings per share	<b>400,000</b>	396,712

Basic earnings per share for the year ended 31 December 2018 amounted to 0.37 RMB cent (2017: 0.17 RMB cent) per share. The number of ordinary shares for the purpose of calculating basic earnings per share has been retrospectively adjusted for the capitalisation issue of the shares of the Company completed on 12 January 2017 (note 25(a)(ii)).

No diluted earnings per share was presented as there was no potential ordinary shares outstanding during the years ended 31 December 2018 and 2017.

## 10. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 10. SEGMENT REPORTING (Continued)

### (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.

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
<b>Local customers</b>		
The PRC (excluding Hong Kong) (place of domicile)	<b>33,256</b>	40,036
<b>Foreign customers</b>		
The United States of America	<b>22,066</b>	13,349
The United Kingdom	<b>12,782</b>	8,715
Belgium	<b>2,301</b>	–
France	<b>697</b>	347
Lithuania	<b>569</b>	701
South Korea	<b>481</b>	982
Uruguay	<b>347</b>	357
Canada	<b>329</b>	1,218
Kazakhstan	<b>320</b>	826
Australia	<b>224</b>	666
Others	<b>1,212</b>	991
	<b>41,328</b>	28,152
	<b>74,584</b>	68,188

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

### (b) Information about major customers

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

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Customer A (note)	<b>8,303</b>	–

Note: Revenue from customer A did not contribute 10% or more of the total revenue from the Group during the year ended 31 December 2017.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 11. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture and fixtures RMB'000	Plant and equipment (including moulds) RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>Cost:</b>					
At 1 January 2017	14,106	450	12,972	785	28,313
Additions	–	–	1,795	–	1,795
Disposal	–	–	(65)	–	(65)
At 31 December 2017	<u>14,106</u>	<u>450</u>	<u>14,702</u>	<u>785</u>	<u>30,043</u>
At 1 January 2018	<b>14,106</b>	<b>450</b>	<b>14,702</b>	<b>785</b>	<b>30,043</b>
Reallocation	–	–	–	–	–
Additions	<b>1,363</b>	–	<b>3,099</b>	–	<b>4,462</b>
At 31 December 2018	<u><b>15,469</b></u>	<u><b>450</b></u>	<u><b>17,801</b></u>	<u><b>785</b></u>	<u><b>34,505</b></u>
<b>Accumulated depreciation:</b>					
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	<u>5,406</u>	<u>401</u>	<u>9,089</u>	<u>598</u>	<u>15,494</u>
At 1 January 2018	<b>5,406</b>	<b>401</b>	<b>9,089</b>	<b>598</b>	<b>15,494</b>
Charge for the year	<b>646</b>	<b>3</b>	<b>1,155</b>	<b>114</b>	<b>1,918</b>
At 31 December 2018	<u><b>6,052</b></u>	<u><b>404</b></u>	<u><b>10,244</b></u>	<u><b>712</b></u>	<u><b>17,412</b></u>
<b>Carrying amounts:</b>					
At 31 December 2018	<u><b>9,417</b></u>	<u><b>46</b></u>	<u><b>7,557</b></u>	<u><b>73</b></u>	<u><b>17,093</b></u>
At 31 December 2017	<u>8,700</u>	<u>49</u>	<u>5,613</u>	<u>187</u>	<u>14,549</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

All the buildings are situated in the PRC and erected on the leasehold land, as referred to Note 12 below, at the end of both reporting periods.

As at 31 December 2018, the carrying amount of buildings pledged for bank borrowings (note 21) of the Group was RMB9,417,000 (2017: RMB8,700,000). Included in plant and equipment are moulds amounting to RMB1,906,000 (2017: RMB1,915,000), whose costs of RMB7,653,000 (2017: RMB7,195,000) 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 2(f).

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

## 12. LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASE

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
<b>Cost</b>		
At 1 January and 31 December	<b>1,890</b>	1,890
<b>Accumulated amortisation</b>		
At 1 January	<b>416</b>	378
Amortisation charged for the year	<b>38</b>	38
At 31 December	<b>454</b>	416
<b>Carrying amount</b>	<b>1,436</b>	1,474
<b>Analysed for reporting purposes as:</b>		
Current assets	<b>38</b>	38
Non-current assets	<b>1,398</b>	1,436
	<b>1,436</b>	1,474

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 2018, the carrying amount of leasehold land pledged for bank borrowings (note 21) of the Group was RMB1,436,000 (2017: RMB1,474,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 13. PLEDGED BANK DEPOSITS

As at 31 December 2018, deposits of RMB50,000 (2017: RMB1,059,000) 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 within 12 months (2017: 12 months) after the end of the reporting period, and accordingly, the amount was classified under current assets as at 31 December 2018 and 2017.

## 14. INVENTORIES

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Raw materials	<b>2,818</b>	3,287
Work in progress	<b>1,827</b>	1,298
Finished goods	<b>2,218</b>	3,752
	<b>6,863</b>	8,337

## 15. PROPERTY HELD FOR SALE

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Property held for sale at cost, in the PRC		
– amount of trade receivable settled in lieu of payment	<b>1,337</b>	1,337
– other incidental transaction costs	<b>131</b>	131
	<b>1,468</b>	1,468

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 RMB2,800,000 as at 31 December 2018. 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 2018.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 16. CONTRACT ASSETS AND CONTRACT LIABILITIES

### (a) Contract assets

	<b>31 December 2018 RMB'000</b>	1 January 2018 RMB'000	31 December 2017 RMB'000
<b>Contract assets</b>			
Retention monies receivables	<b>4,444</b>	11,186	–
<b>Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (note 17)</b>	<b>36,594</b>	35,472	

Note:

- (i) The contract assets primarily relate to the Group's rights to consideration for goods transferred by the Group to the customers for which the rights to consideration are still conditional upon the customers' satisfaction on the quality of the goods sold which is typically at the expiry date of the assurance-type warranty period, as stipulated in the contracts.

The contract assets are transferred to trade receivables when the rights to consideration become unconditional.

At 31 December 2018 and 1 January 2018, included in contract assets were retention monies receivable from the contract customers amounting to RMB4,444,000 and RMB11,186,000 respectively. The terms and conditions for the release of retention monies by the contract customers vary from contract to contract, which are subject to the customers' satisfaction of quality upon the expiry of the assurance-type warranty period. The retention monies receivable from the contract customers generally represent 5% to 10% of consideration of the contracts, that are retained by the contract customers as security for non-performance protection and the Group's entitlement to payment of retention monies receivable are conditional upon the contract customers' physical inspection of the quality of the goods at the expiry of the assurance-type warranty period. In the opinion of the directors of the Company, the retention monies retained by the contract customers under the contracts are not intended as a financing arrangement by the Group to the contract customers.

- (ii) Impairment assessment of the contract assets

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

At 31 December 2018 and 1 January 2018, no allowance for impairment loss on contract assets was made.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 16. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

### (b) Contract liabilities

	<b>31 December 2018 RMB'000</b>	1 January 2018 RMB'000	31 December 2017 RMB'000
<b>Contract liabilities</b>			
Sales deposits received	<b>93</b>	457	–

Notes:

Contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration or is contractually required to pay non-refundable consideration and the amount is already due before the Group recognises the related revenue. Sales deposits received previously included as receipt in advance under "Trade and other payables" (note 20) were reclassified to contract liabilities since 1 January 2018.

### Movement in contract liabilities

	<b>2018 RMB'000</b>
Balance at 1 January	<b>457</b>
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	<b>(455)</b>
Increase in contract liabilities as a result of receiving sales deposits during the year	<b>91</b>
Balance at 31 December	<b>93</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 17. TRADE AND OTHER RECEIVABLES

	<b>31 December 2018 RMB'000</b>	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade receivables (note (i) below)	<b>36,594</b>	35,472	46,658
Less: allowance for doubtful debts (note (i) and (ii) below)	<b>(1,396)</b>	(1,563)	(1,563)
	<b>35,198</b>	33,909	45,095
Bills receivables (note (c) below)	<b>11,163</b>	4,214	4,214
Trade and bills receivables, net (notes (a) and (b))	<b>46,361</b>	38,123	49,309
Other receivables	<b>968</b>	849	849
Prepayments and deposits	<b>2,077</b>	1,844	1,844
Current portion of leasehold land held for own use under an operating lease (Note 12)	<b>38</b>	38	38
	<b>49,444</b>	40,854	52,040

The Group has an unconditional right to all of the trade and other receivables which are expected to be recovered and or recognised as expenses within one year or repayment on demand.

Notes:

- (i) Upon the adoption of HKFRS 15 since 1 January 2018, some of the trade receivables, for which the Group's entitlement to the consideration, which was conditional on achieving certain milestones, were reclassified to "contract assets" (note 16(a)).
- (ii) The Group determines the provision for impairment of trade and other receivables on a forward looking basis and expected lifetime losses are recognised from initial recognition of the assets.

The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward looking estimates (see note 26(a)).

Other receivables are considered for 12-month expected credit losses.

In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in operating results and financial positions of the customers, past payment history of the customers, and actual or adverse changes in business, financial or economic conditions that are expected to cause a significant change in the customers' ability to meet their obligations.

At the end of each reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 17. TRADE AND OTHER RECEIVABLES (Continued)

### (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:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
0 – 30 days	<b>11,568</b>	12,171
31 – 90 days	<b>13,392</b>	13,301
91 – 180 days	<b>14,656</b>	10,212
181 – 365 days	<b>3,978</b>	4,230
Over 365 days	<b>2,767</b>	9,395
	<b>46,361</b>	49,309

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 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. Since 1 January 2018, retention monies were reclassified to contract assets (note 16(a)). Further details on the Group's credit policy are set out in note 26(a).

### (b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 2(h)(i)).

*Movements in the allowance for doubtful debts*

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
At 1 January	<b>1,563</b>	1,445
Impairment loss recognised	<b>555</b>	118
Bad debt written off	<b>(722)</b>	–
At 31 December	<b>1,396</b>	1,563

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 17. TRADE AND OTHER RECEIVABLES (Continued)

### (b) Impairment of trade and bills receivables (Continued)

*Movements in the allowance for doubtful debts (Continued)*

As at 31 December 2018, trade receivables of the Group amounting to RMB1,396,000 (2017: RMB1,563,000) was determined to be impaired according to the expected credit loss rates (2017: being outstanding for over 180 days at the end of the reporting period or due from customers with financial difficulties). Accordingly, allowance for doubtful debts of RMB555,000 (2017: RMB118,000) was recognised for the year ended 31 December 2018.

- (c) As at 31 December 2018, bills receivables of RMB6,800,000 (2017: RMB3,400,000) were pledged to a bank in the PRC as securities for the issuance of bills by the Group (note 20).
- (d) Further disclosure in respect of credit risk from trade and bills receivables are disclosed in note 26(a).

## 18. CASH AND CASH EQUIVALENTS

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
<b>(a) Cash and cash equivalents comprise:</b>		
Cash at bank	<b>6,166</b>	11,320
Cash on hand	<b>4</b>	4
	<hr/>	<hr/>
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	<b>6,170</b>	11,324
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 18. CASH AND CASH EQUIVALENTS (Continued)

### (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 borrowings	–	20,000	20,000
– Repayment of amount due to a shareholder/bank borrowings	(2,714)	(20,000)	(22,714)
At 31 December 2017 and 1 January 2018	–	20,000	20,000
Changes from financing cash flows			
– Proceeds from new bank borrowings	–	15,000	15,000
– Repayment of bank borrowings	–	(20,000)	(20,000)
At 31 December 2018	–	15,000	15,000

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 RMB'000	2017 RMB'000
Bank Wealth Management Products, at fair value	5,000	–

The amount represents investments in bank wealth management products issued by a bank with expected return ranging from 2.6% to 4% per annum and will mature within one year. The carrying amount approximated the fair value. All these financial assets were acquired by the Group close to the year end of 2018 and there were no material change in their fair value between the acquisition date and 31 December 2018. The fair value is calculated by reference to subsequent receipts upon their redemption immediately after the end of reporting period.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 20. TRADE AND OTHER PAYABLES

	<b>31 December 2018 RMB'000</b>	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade payables	<b>8,866</b>	9,135	9,135
Bills payables	<b>6,680</b>	4,246	4,246
	<hr/>	<hr/>	<hr/>
Total trade and bills payables	<b>15,546</b>	13,381	13,381
Other payables	<b>6,227</b>	4,442	4,899
	<hr/>	<hr/>	<hr/>
	<b>21,773</b>	17,823	18,280
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Sales deposits received in advance previously included as receipt in advance under "other payables" was reclassified to contract liabilities (note 16(b)) since 1 January 2018.

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

	<b>2018 RMB'000</b>	2017 RMB'000
0 – 30 days	<b>4,265</b>	4,800
31 – 90 days	<b>3,826</b>	4,938
91 – 180 days	<b>3,848</b>	3,230
Over 180 days	<b>3,607</b>	413
	<hr/>	<hr/>
	<b>15,546</b>	13,381
	<hr/> <hr/>	<hr/> <hr/>

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 21. BANK BORROWINGS

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

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
<b>Fixed rate term loans from banks due for repayment within 1 year or repayable on demand</b>		
Secured bank borrowings (note below)	<b>15,000</b>	20,000

Note: As at 31 December 2018 and 2017, the bank borrowings were secured by buildings (note 11) and a leasehold land (note 12) of the Group. It was further guaranteed by an independent third party guarantee company in the PRC.

## 22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
<b>Current year</b>		
PRC EIT	<b>2,980</b>	2,397

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

### (b) Deferred tax assets

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

	<b>Temporary differences in respect of provisions for impairment loss on trade receivables</b>
	RMB'000
<b>At 1 January 2017</b>	361
Credited to consolidated profit or loss (note 6(a))	29
	<hr/>
<b>At 31 December 2017 and 1 January 2018</b>	390
Charged to consolidated profit or loss (note 6(a))	(40)
	<hr/>
<b>At 31 December 2018</b>	<b>350</b>
	<hr/> <hr/>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 22. 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:

	<b>Temporary differences in respect of distributable profits from the PRC subsidiary</b> RMB'000
<b>At 1 January 2017</b>	1,812
Charged to consolidated profit or loss (note 6(a))	<u>717</u>
<b>At 31 December 2017 and 1 January 2018</b>	2,529
Charged to consolidated profit or loss (note 6(a))	<u>638</u>
<b>At 31 December 2018</b>	<b><u><u>3,167</u></u></b>

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 RMB638,000 (2017: RMB717,000), have been recognised for the year ended 31 December 2018, 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 2018 and 2017.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 23. EMPLOYEE RETIREMENT BENEFITS

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

The total expenses recognised in profit or loss of RMB1,160,000 (2017: RMB1,061,000) for year ended 31 December 2018, representing contributions payable to these plans by the Group at rates specified in the rules of the plans.

## 24. 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
<b>Direct interests:</b>				
Prosperous Composite Material Co., Ltd	The BVI/ 7 November 2006/ Limited liability company	Investment holding	US\$100,000	100%
<b>Indirect interests:</b>				
Nantong Meigu Composite Materials Company Limited	The PRC/ 24 April 2003/Wholly foreign-owned enterprise	Research and development, production and sales of fiberglass reinforced plastic products in the PRC	US\$3,000,000	100%
<b>Disposed of during the year ended 31 December 2018:</b>				
Treasure Route Group Limited <sup>#</sup>	The BVI/ 17 July 2017/Limited liability company	Investment holding	US\$1	100%
Dragon Galaxy Holdings Limited <sup>#</sup>	Hong Kong/ 28 March 2017/ Limited liability company	Investment holding	HK\$1	100%
美国新材料(南通)有限公司 <sup>#</sup>	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 to the date of cessation of being a subsidiary of the Group.

<sup>#</sup> These disposed subsidiaries did not have any business operation since its respective incorporation/ registration up to the date of cessation of being subsidiaries of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 25. CAPITAL AND RESERVES

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

### (a) Share capital

	2018		2017	
	Number of shares	Share capital	Number of shares	Share capital
Ordinary shares of HK\$0.01 each				
		HK\$'000		HK\$'000
Authorised:				
At beginning of the year	2,000,000,000	20,000	38,000,000	380
Increase in authorised shares (note (i))	-	-	1,962,000,000	19,620
At end of the year	<u>2,000,000,000</u>	<u>20,000</u>	<u>2,000,000,000</u>	<u>20,000</u>
		RMB'000		RMB'000
Issue and fully paid:				
At beginning of the year	400,000,000	3,600	750	-
Issue of shares upon listing (note (ii))	-	-	100,000,000	886
Capitalisation issue (note (ii))	-	-	299,999,250	2,714
At end of the year	<u>400,000,000</u>	<u>3,600</u>	<u>400,000,000</u>	<u>3,600</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 25. CAPITAL AND RESERVES (Continued)

### (a) Share capital (Continued)

Notes:

- (i) 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 ordinary shares of HK\$0.01 each in preparation for the listing of the Company.
- (ii) On 12 January 2017, the Company issued 100,000,000 new ordinary 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 Developments Limited ("Munsing") (wholly-owned by Mr. Shen Lieixing ("Mr. Shen")) and Singa Dragon International Ventures Limited ("Singa") (wholly-owned by Mr. Jiang Guitang ("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, which were charged to share premium account of the Company as deduction against the 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.

### (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

As at 31 December 2017, 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 note 2(e)(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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 25. 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 2018 and 2017, the share-based payments amortised, recognised and charged as expense to the consolidated profit or loss of the Group amounted to RMB400,000 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 25. CAPITAL AND RESERVES (Continued)

### (f) Distributability of reserves

At 31 December 2018, 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 RMB40,142,000 (2017: RMB39,157,000).

### (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 2018 and 2017 were as follows:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Total borrowings (note 21)	<b>15,000</b>	20,000
Less: Cash and cash equivalents (note 18(a))	<b>(6,170)</b>	(11,324)
Net debt	<b>8,830</b>	8,676
Total equity attributable to owners of the Company	<b>49,267</b>	47,397
Total capital	<b>58,097</b>	56,073
Gearing ratio	<b>15%</b>	15%

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The financial instruments of the Group include contract assets (note 16(a)), trade and other receivables (excluding prepayments and deposits) (note 17), pledged bank deposits (note 13), cash and cash equivalents (note 18(a)), financial assets at fair value through other comprehensive income (note 19), trade and other payables (note 20) and bank borrowings (note 21).

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 contract assets, trade and bills receivables, cash and cash equivalents, pledged bank deposits and financial assets at fair value through other comprehensive income. 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 cash and cash equivalents and pledged bank deposits are placed with and financial assets at fair value through other comprehensive income are issued by creditworthy banks with high credit ratings and the Group has limited exposure to any of these banks.

In respect of contract assets and trade and bills receivables, the Group's exposures to credit risk is influenced mainly by the individual characteristics of each customer. Contract assets are substantially the same characteristics as the trade receivables for the same types of the contracts. The Group's contract customers are mainly with high credit rating and their payment history with the Group are considered to be good. There are no material disputes or claims received from the contract customers and the Group considered that there has not been a significant change in credit quality of the contract customers. The default risk of the industry and country in which customers operate also has an influence on credit risk.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

### (a) Credit risk *(Continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2018, 6.5% and 28.4% (2017: 10.6% and 42.1%), of the total of contract assets and trade and bills receivables was due from the Group's largest debtor and the five largest debtors, respectively.

In order to determine the expected credit losses for the portfolio of contract assets and trade and bills receivables at each reporting period end, the Group uses a provision matrix. The provision matrix is based on its historical observed default rates, adjusted for forward looking estimates and market conditions. At each reporting period end, the historical observed default rates and the forward looking estimates are updated.

The following table provides information about the Group's exposures to credit risk and ECLs for contract assets and trade receivables and bills receivables as at 31 December 2018.

	As at 31 December 2018				
	Lifetime ECL %	Gross carrying amount RMB'000	Lifetime ECL RMB'000	Net carrying amount RMB'000	Credit impaired Yes/No
Not past due	–	46,076	–	46,076	No
Past due					
Within 1 month	–	251	–	251	No
1 to 3 months	10.7%	943	(100)	843	No
3 months to 1 year	12.5%	3,824	(478)	3,346	No
1 to 2 years	46.5%	540	(251)	289	No
Credit impaired	100.0%	567	(567)	–	Yes
		<u>52,201</u>	<u>(1,396)</u>	<u>50,805</u>	
Represented by:					
Contract assets (Note 16(a))		4,444	–	4,444	
Trade receivables (Note 17)		36,594	(1,396)	35,198	
Bills receivables (Note 17)		11,163	–	11,163	
		<u>52,201</u>	<u>(1,396)</u>	<u>50,805</u>	



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

### (a) Credit risk (Continued)

Expected loss rates are based on actual loss experience over the past 4 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

*Comparative information under HKAS 39*

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(h)(i)(B) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of RMB1,563,000 were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	36,372
Past due but not impaired	
Less than 1 month past due	1,132
1 to 3 months past due	1,941
Over 3 months and less than 1 year past due	7,784
More than 1 year past due	2,080
	<u>12,937</u>
	<u>49,309</u>

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 26. 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.

	<b>Total contractual undiscounted cash flows within 1 year</b>	<b>Carrying amounts</b>
	RMB'000	RMB'000
<b>As at 31 December 2018</b>		
Trade and other payables	<b>21,773</b>	<b>21,773</b>
Bank borrowings	<b>15,430</b>	<b>15,000</b>
	<b>37,203</b>	<b>36,773</b>
<b>As at 31 December 2017</b>		
Trade and other payables	18,280	18,280
Bank borrowings	20,572	20,000
	38,852	38,280

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

### (c) Interest rate risk

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

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

#### *Interest rate profile*

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

	2018		2017	
	Effective interest rates %	RMB'000	Effective interest rates %	RMB'000
<b>Fixed rate borrowings</b>				
Bank borrowings	<b>5.00</b>	<b>15,000</b>	5.00	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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

### (d) Currency risk (Continued)

Exposure to currency risk (Continued)

The following table details the Group's exposure at the end of 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	
	2018 United States Dollars RMB'000	2017 United States Dollars RMB'000
Trade receivables	12,775	9,715
Cash and cash equivalents	189	8,982
	<hr/>	<hr/>
Gross exposure arising from recognised assets and liabilities	<b>12,964</b>	18,697
	<hr/> <hr/>	<hr/> <hr/>

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.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	5%	648	5%	701
	(5%)	(648)	(5%)	(701)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 26. 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 2017.

## 27. MATERIAL RELATED PARTY TRANSACTIONS

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

### Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 7, certain of the highest paid employees as disclosed in note 8 and senior management, is as follows:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Short-term employee benefits	<b>2,596</b>	2,208
Post-employment benefits	<b>172</b>	422
Equity-settled share-based payments	<b>400</b>	400
	<b>3,168</b>	3,030

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 28. CAPITAL AND LEASE COMMITMENTS

As at 31 December 2018 and 2017, the Group had no material outstanding capital and lease commitments.

## 29. ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

#### (i) *Income tax*

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

#### (ii) *Recognition of deferred tax assets*

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

#### (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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 29. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### (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 contract assets and receivables*

The Group estimates expected credit losses on receivables for calculating 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.

#### (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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 29. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

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

#### (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 2018 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 2018 and no write-off for the property held for sale was considered necessary at 31 December 2018. 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 warranty cannot be separately purchased by the customers and it only provides assurance that the products transferred by the Group comply with the agreed-up specifications. 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 30. THE COMPANY'S STATEMENT OF FINANCIAL POSITION

The Company was incorporated in the Cayman Islands on 13 January 2016 as an exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of a par value HK\$0.01 each. Details of the share capital of the Company are set out in note 25(a).

	Note	2018 RMB'000	2017 RMB'000
<b>Non-current assets</b>			
Investment in subsidiaries	30(a)	<b>29,903</b>	29,903
<b>Current assets</b>			
Prepayments		<b>88</b>	–
Amount due from a subsidiary	30(b)	<b>9,816</b>	13,212
Cash and cash equivalent		<b>1,463</b>	821
		<b>11,367</b>	14,033
<b>Current liabilities</b>			
Other payables		<b>(1,497)</b>	(768)
Amounts due to subsidiaries	30(c)	<b>(7,198)</b>	(7,198)
		<b>(8,695)</b>	(7,966)
<b>Net current assets</b>		<b>2,672</b>	6,067
<b>TOTAL ASSETS LESS TOTAL LIABILITIES</b>		<b>32,575</b>	35,970
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	25(a)	<b>3,600</b>	3,600
Reserve	30(d)	<b>28,975</b>	32,370
<b>TOTAL EQUITY</b>		<b>32,575</b>	35,970

Notes:

(a) Investment in subsidiaries

	2018 RMB'000	2017 RMB'000
Investment in Prosperous Composite	<b>29,903</b>	29,903

The particulars of the subsidiaries of the Company are disclosed in note 24.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

Notes: (Continued)

(b) Amount due from a subsidiary

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Amount due from Prosperous Composite	<b>9,816</b>	13,212

The amount due from the subsidiary is unsecured, interest-free and has no fixed repayment terms.

(c) Amount due to subsidiaries

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Amount due to Nantong Meigu	<b>7,198</b>	7,198

The amount due to the subsidiary is unsecured, interest-free and has no fixed repayment terms.

(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:

	<b>Share premium</b> (Note 25(b)) RMB'000	<b>Capital reserve</b> (Note 25(c)) RMB'000	<b>Share-based payment reserve</b> (Note 25(d)) RMB'000	<b>Accumulated losses</b> RMB'000	<b>Total</b> RMB'000
<b>As at 1 January 2017</b>	–	29,903	333	(13,529)	16,707
Issuance of shares upon listing (note 25(a)(ii))	30,136	–	–	–	30,136
Issuance cost (note 25(a)(ii))	(6,522)	–	–	–	(6,522)
Capitalisation issue (note 25(a)(ii))	(2,714)	–	–	–	(2,714)
Loss and total comprehensive loss for the year	–	–	–	(5,637)	(5,637)
Equity-settled share-based payments	–	–	400	–	400
<b>As at 31 December 2017 and 1 January 2018</b>	<b>20,900</b>	<b>29,903</b>	<b>733</b>	<b>(19,166)</b>	<b>32,370</b>
Loss and total comprehensive loss for the year	–	–	–	(3,795)	(3,795)
Equity-settled share-based payments	–	–	400	–	400
<b>As at 31 December 2018</b>	<b>20,900</b>	<b>29,903</b>	<b>1,133</b>	<b>(22,961)</b>	<b>28,975</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 and which have not been adopted in these financial statements.

HKFRS 16	Leases <sup>1</sup>
HKFRS 17	Insurance Contracts <sup>4</sup>
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to HKAS 1 and HKAS 8	Definitions of Material <sup>3</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement <sup>1</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Annual Improvements to HKFRSs 2015-2017	Cycle Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>4</sup> 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

### **HKFRS 16, Leases**

As disclosed in note 2(g), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. As the Group does not have material leases which are currently classified as operating leases, it is anticipated that HKFRS 16 will not have material impact to the recognition of leases of the Group.

### **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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

### **Amendments to HKAS 1 and HKAS 8 Definition of a Business**

HKAS 1 was amended in 2015 to clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contains a list of specific requirements or describes them as minimum requirements. On the other hand, an entity should consider whether it is necessary to provide disclosures in addition to those specifically required by an HKFRS in order to help users understand the impact of a particular transaction or event on the entity's financial position and financial performance.

The amendments also highlight that when an entity decides how it aggregates information in the financial statements, it should take into consideration all relevant facts and circumstances. In particular, an entity should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions. Obscuring material information with immaterial information in financial statements will make the material information less visible and will therefore make the financial statements less understandable.

### **Amendments to HKFRS 9 Prepayment features with negative compensation**

The amendments to HKFRS 9, Prepayment features with negative compensation, are a direct consequence of the identical amendments made to IFRS 9 by the IASB. Negative compensation arises when the party effecting the prepayment in effect receives a benefit from the other party (e.g. when the prepayment amount is based on the fair value of the loan at the date of prepayment which may be less than the amount that would have been repaid at maturity). The amendments require entities to measure financial assets with such a prepayment feature at amortised cost or at fair value through other comprehensive income (depending on the business model under which the financial assets are managed), if certain criteria are met. Under the current HKFRS 9 requirements, prepayment features with negative compensation would result in a financial asset being classified as at fair value through profit or loss.

The directors of the Company do not anticipate that the application of the interpretation and the amendments will have a material impact on the Group's consolidated financial statements.

## 32. COMPARATIVE INFORMATION

Certain comparative information have been amended to conform with the current year's presentation.

## 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors of the Company on 22 March 2019.

