



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



FIRST QUARTERLY REPORT
2017

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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This report, for which the directors (“Directors”) of MEIGU Technology Holding Group Limited (“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 (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2017, together with comparative unaudited figures for the same corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the three months ended 31 March	
		2017	2016
		RMB'000	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
	<i>Notes</i>		
Revenue	4	11,708	11,398
Cost of sales		(7,496)	(7,566)
Gross profit		4,212	3,832
Other revenue	5	113	5
Other net income	5	87	74
Selling and distribution costs		(1,504)	(1,187)
Listing expenses		(3,046)	(2,322)
Administrative expenses		(2,228)	(1,439)
Loss from operations		(2,366)	(1,037)
Finance costs	6(a)	(261)	(294)
Loss before taxation	6	(2,627)	(1,331)
Income tax	7	(376)	(417)
Loss for the period		(3,003)	(1,748)
Other comprehensive income for the period		-	-
Total comprehensive loss for the period		(3,003)	(1,748)
Loss for the period attributable to:			
Owners of the Company		(3,003)	(1,821)
Non-controlling interests		-	73
		(3,003)	(1,748)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the three months ended 31 March	
		2017	2016
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
	<i>Note</i>		
Total comprehensive loss for the period attributable to:			
Owners of the Company		(3,003)	(1,821)
Non-controlling interests		—	73
		(3,003)	(1,748)
		RMB cent	RMB cent
Loss per share			
Basic and diluted	9	(0.77)	(0.61)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Share capital	Share premium	Capital reserve	Share-based			Non-controlling interest	Total equity	
				payment reserves	Statutory reserve	Retained profits			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2016	-	-	9,557	-	2,855	17,384	29,796	3,825	33,621
Loss and total comprehensive loss									
for the period	-	-	-	-	-	(1,821)	(1,821)	73	(1,748)
Issuance of shares	-	-	12,584	-	-	-	12,584	-	12,584
Acquisition of non-controlling interest	-	-	-	-	-	(544)	(544)	(3,898)	(4,442)
Equity-settled share-based payments	-	-	-	17	-	-	17	-	17
Transfer to statutory reserve	-	-	-	-	61	(61)	-	-	-
At 31 March 2016	-	-	22,141	17	2,916	14,958	40,032	-	40,032
At 1 January 2017	-	-	9,557	333	3,258	8,666	21,814	-	21,814
Loss and total comprehensive loss									
for the period	-	-	-	-	-	(3,003)	(3,003)	-	(3,003)
Placing of shares	886	30,136	-	-	-	-	31,022	-	31,022
Issuance of shares by capitalisation	2,714	(2,714)	-	-	-	-	-	-	-
Transaction costs for placing and capitalization issue of shares	-	(5,281)	-	-	-	-	(5,281)	-	(5,281)
Equity-settled share-based payments	-	-	-	100	-	-	100	-	100
Transfer to statutory reserve	-	-	-	-	25	(25)	-	-	-
At 31 March 2017	3,600	22,141	9,557	433	3,283	5,638	44,652	-	44,652

Notes:

1. GENERAL INFORMATION

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

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

2. BASIS OF PRESENTATION

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

Details of the Reorganisation are set out in the paragraphs headed “Reorganisation” on pages 52 to 54 of the 2016 annual report of the Group. The Group is under the common control of the controlling shareholders of the Company prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The unaudited condensed consolidated results of the Group have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the three months ended 31 March 2016.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group’s unaudited consolidated results for the three months ended 31 March 2017 have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules and Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2017 are consistent with those adopted in the financial statements of the Group for the year ended 31 December 2016.

The consolidated results of the Group for the three months ended 31 March 2017 are unaudited but have been reviewed by the audit committee of the Company.

4. REVENUE

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

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

	For the three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of fiberglass reinforced plastic products		
– fiberglass reinforced plastic (“FRP”) grating	8,386	8,524
– United States Coast Guard (“USCG”) approved phenolic grating	1,161	2,397
– epoxy wedge strip	2,161	477
	11,708	11,398

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.

5. OTHER REVENUE AND OTHER NET INCOME

	For the three months ended 31 March	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Other revenue		
Interest income on bank deposits	1	5
Government subsidies	40	–
Sundries	72	–
	<hr/>	<hr/>
	113	5
	<hr/> <hr/>	<hr/> <hr/>
Other net income		
Net foreign exchange gain	87	30
Reversal of impairment loss on trade and bills receivables	–	44
	<hr/>	<hr/>
	87	74
	<hr/>	<hr/>
	200	79
	<hr/> <hr/>	<hr/> <hr/>

6. LOSS BEFORE TAXATION

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

	For the three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(a) Finance costs		
Interest on bank borrowings	261	294
	<hr/> <hr/>	<hr/> <hr/>
(b) Staff costs (including director's emoluments)		
Salaries, wages and other benefits	2,128	1,785
Contributions to defined contribution retirement plans	308	295
Equity-settled share-based payments	100	17
	<hr/> <hr/>	<hr/> <hr/>
	2,536	2,097
	<hr/> <hr/>	<hr/> <hr/>
(c) Other items		
Amortisation for prepaid lease payments	9	9
Reversal of impairment loss on trade and bills receivables	-	(44)
Depreciation for property, plant and equipment	433	450
Cost of inventories recognised as expense (note (i))	7,496	7,566
Research and development costs (note (ii))	339	269
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Notes:

- (i) Cost of inventories recognised as expenses include RMB1,179,000 (three months ended 31 March 2016: RMB1,061,000) relating to staff costs, and RMB243,000 (three months ended 31 March 2016: RMB249,000) relating to depreciation for property, plant and equipment, the amounts of which are also included in the total amount disclosed separately above for each of these types of expenses.
- (ii) Included in the research and development costs are staff cost of RMB229,000 (three months ended 31 March 2016: RMB195,000) the amount of which is also included in the total amount separately disclosed for this type of expense.

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

(a) Income tax recognised in profit or loss:

	For the three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary	104	154
Deferred tax		
Origination and reversal of temporary differences in respect of		
– Reversal of impairment loss on trade and bills receivable	–	11
– withholding tax on distributable profits of the Group's PRC subsidiary	272	252
	272	263
	376	417

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

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

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

	For the three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss before taxation	<u>(2,627)</u>	<u>(1,331)</u>
Notional tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	104	165
Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiary	<u>272</u>	<u>252</u>
Actual tax expense	<u>376</u>	<u>417</u>

8. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the three months ended 31 March 2017 (three months ended 31 March 2016: Nil).

9. LOSS PER SHARE

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

	For the three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss for the purpose of basic loss per share		
Loss for the period attributable to owners of the Company	<u>(3,003)</u>	<u>(1,821)</u>

Number of shares

Weighted average number of ordinary shares for the purpose of calculating basic loss per share

For the three months ended 31 March	
2017 '000 (Unaudited)	2016 '000 (Unaudited)
387,640	300,000

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

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

10. MATERIAL RELATED PARTY TRANSACTIONS

Mr. Shen Weixing (“Mr. Shen”) and Mr. Jiang Guitang (“Mr. Jiang”), who are the beneficial owners of the Group acting in concert in the management of the Group, are regarded as the ultimate controlling parties of the Group during the period.

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

(a) Key management personnel remuneration

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

For the three months ended 31 March		
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Short-term employee benefits	308	203
Post-employment benefits	40	40
Equity-settled share-based payments	100	17
	448	260

(b) Other related party balance

Saved as disclosed elsewhere in this report, the Group has the following related party balance:

	As at 31 March 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Amount due to a shareholder		
– Munsing Developments Limited (wholly owned by Mr, Shen) <i>(Note)</i>	–	2,714
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Note: The amount due to the related company was non-trade in nature, unsecured, interest-free and repayable on demand. The amount was fully repaid on 22 February 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is an established and leading manufacturer in the PRC engaged in the research and development, production and sale of a variety of FRP products. The Group's major products consist of: (i) FRP Grating products; (ii) USCG Approved Phenolic Grating products; (iii) FRP Subway Evacuation Platform products; and (iv) Epoxy Wedge Strip products. A new product line, composite crossties for use in railways has been developed and will be rolled out for commercial production in the second quarter of 2017.

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

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

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB11.7 million for the three months ended 31 March 2017, representing a slight increase of approximately RMB311,000 or 2.7% as compared to the corresponding three months in 2016. The increase in revenue was primarily driven by the increase in sales revenue generated from sales of Epoxy Wedge Strip products.

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

	For the three months ended 31 March 2017		For the three months ended 31 March 2016	
	Sales revenue <i>RMB'000</i>	Gross profit margin %	Sales revenue <i>RMB'000</i>	Gross profit margin %
FRP Grating products	8,386	33.4	8,524	32.7
USCG Approved Phenolic Grating products	1,161	41.5	2,397	37.4
FRP Subway Evacuation Platform products	-	-	-	-
Epoxy Wedge Strip products	2,161	43.1	477	30.6
	11,708	36.0	11,398	33.6

For the three months ended 31 March 2017, sales of FRP Grating products remained the largest contributor to the Group's revenue and it accounted for approximately 71.6% 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 reduced by approximately 1.6% from approximately RMB8.5 million for the three months ended 31 March 2016 to approximately RMB8.4 million for the three months ended 31 December 2017. This is mainly attributable to the reduction in overseas sales. There is no notable fluctuation in the gross profit margin on comparison between the two periods.

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 reduced by 51.6% from approximately RMB2.4 million for the three months ended 31 March 2016 to approximately RMB1.2 million for the three months ended 31 March 2017. This substantial reduction is primarily due to reduction in sales to 2 major customers in Nantong. The gross profit margin increased by 4.1% from 37.4% for the three months ended 31 March 2016 to 41.5% for the three months ended 31 March 2017. This is primarily due to the increased level of complexity in the cutting technique which allows an increase in the average selling price of this product category with no noticeable increase in cost of production.

FRP Subway Evacuation Platform products were sold to main contractors who are principally engaged in railway construction works in the PRC. There is no sales revenue recorded for this product category in respect of the two periods as this is the traditional slack season for the sales and delivery of this product category.

Epoxy Wedge Strip products were developed and launched in 2014 which targeted manufacturers of wind turbine blades in the PRC. The revenue derived from sales of Epoxy Wedge Strip products increased substantially by approximately RMB1.6 million or 353.0% from approximately RMB0.5 million for the three months ended 31 March 2016 to approximately RMB2.2 million for the three months ended 31 March 2017. This drastic increase is mainly due to the fact that some new domestic customers placing orders for such products were only secured subsequent to 31 March 2016 and hence the sales revenue generated during the three months ended 31 March 2016 was very low compared to that of the three months ended 31 March 2017. The gross profit margin increased by 12.5% from 30.6% for the three months ended 31 March 2016 to 43.1% for the three months ended 31 March 2017. This is largely attributable to the substantial increase in sales of Epoxy Wedge Strip products with different shapes, weight and dimensions, which were able to fetch a higher gross profit margin.

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

	For the three months ended 31 March 2017		For the three months ended 31 March 2016	
	Average selling price per unit	Volume	Average selling price per unit	Volume
	RMB		RMB	
FRP Grating products (m ²)	266.8	31,432	287.5	29,861
USCG Approved Phenolic Grating products (m ²)	530.7	2,188	518.4	4,626
FRP Subway Evacuation Platform products (m ²)	–	–	–	–
Epoxy Wedge Strip products (m)	41.4	52,237	13.7	30,315

The average selling price of the FRP Grating products per m² decreased by 7.2% from RMB287.5 per m² for the three months ended 31 March 2016 to RMB266.8 per m² for the three months ended 31 March 2017, with an increase in sales volume of 5.3% on comparison between the two periods. The decrease in average selling price was mainly due to normal fluctuation in prices of different FRP Grating products and the variation in the composition of lower priced FRP Grating products sold.

The average selling price of the USCG Approved Phenolic Grating products per m² increased by 2.4% from RMB518.4 per m² for the three months ended 31 March 2016 to RMB530.7 per m² for the three months ended 31 March 2017, with a reduction in sales volume of 52.7% on comparison between the two periods. The increase in average selling price was mainly due to the increased level of complexity in the cutting technique which allows an increase in the average selling price of this product category.

The average selling price of the Epoxy Wedge Strip products per m increased substantially by 202.2% from RMB13.7 per m for the three months ended 31 March 2016 to RMB41.4 per m for the three months ended 31 March 2017, with an increase in sales volume of 72.3% on comparison between the two periods. This drastic increase in average selling price was mainly due to the substantial increase in sale of product items with different shape, weight and dimensions which procured higher average selling price.

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

	For the three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
PRC	7,246	5,676
The United States of America ("U.S.")	2,455	3,326
The United Kingdom ("U.K.")	1,532	2,051
Others	475	345
Total	11,708	11,398

Sales in the PRC market increased by 27.7% from approximately RMB5.7 million for the three months ended 31 March 2016 to approximately RMB7.2 million for the three months ended 31 March 2017, mainly because of the increase in the number of new domestic customers during the three months ended 31 March 2017.

Sales to the U.S. market decreased by 26.2% from approximately RMB3.3 million for the three months ended 31 March 2016 to approximately RMB2.5 million for the three months ended 31 March 2017, mainly because of the decrease in sales to a major customer in the U.S.

Sales to the U.K. market decreased by 25.3% from approximately RMB2.1 million for the three months ended 31 March 2016 to approximately RMB1.5 million for the three months ended 31 March 2017, mainly because of the reduction in sales to a major customer in the U.K.

Sales to the other locations increased by 37.7% from approximately RMB345,000 for the three months ended 31 March 2016 to approximately RMB475,000 for the three months ended 31 March 2017, mainly because of new customers acquired in Korea and Uruguay.

The selling and distribution costs increased by approximately RMB317,000, a 26.7% increase to approximately RMB1.5 million for the three months ended 31 March 2017 from approximately RMB1.2 million for the three months ended 31 March 2016. The increase was mainly attributed to the increase in staff costs and exhibition fees.

The administrative expenses increased by approximately RMB789,000, a 54.8% increase to approximately RMB2.2 million for the three months ended 31 March 2017 from approximately RMB1.4 million for the three months ended 31 March 2016. The increase was mainly attributed to the increase in research and development expenses and the legal and professional fees in relation to the registration of the intellectual property rights.

Finance costs decreased by approximately RMB33,000 to approximately RMB261,000 for the three months ended 31 March 2017 from approximately RMB294,000 for the three months ended 31 March 2016. The decrease was mainly due to the general reduction in the bank interest rates during the three months ended 31 March 2017.

Loss before taxation has increased by 97.4% from approximately RMB1.3 million for the three months ended 31 March 2016 to approximately RMB2.6 million for the three months ended 31 March 2017 primarily due to the increase in selling and distribution costs, listing expenses and administrative expenses.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLAN

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

Business objective	Planned use of proceeds <i>HK\$'million</i>	Actual use of proceeds <i>HK\$'million</i>
1. The enhancement of the existing production processes, and acquisition of new production facilities		
– Enhancement of the existing pultrusion equipment and associated resin basins and pre-pre-form machine to improve product quality and optimize production costs	0.7	0.32
– Purchase hydraulic presses to produce the parts for the FRP Subway Evacuation Platform products	2.4	
– Automation of the cutting process of the pultrusion production process to improve the cutting precision level and reduce labour costs	0.6	
– Purchase of automated FRP moulding production facilities to further enhance the product quality and lower the labour costs	2.8	

Business objective	Planned use of proceeds <i>HK\$ 'million</i>	Actual use of proceeds <i>HK\$ 'million</i>
2. The further development of the products according to the expected growth trend as a result of the PRC's macroeconomic policies in promoting "Belt and Road Initiatives"		
– Redefine the features and characteristics of the new FRP crosstie products via communication with the existing and potential customers and conduct trial production	0.9	0.01
– Development of the relevant quality control and testing equipment of the new FRP crosstie products	0.2	
– Development and purchase of new production equipment for the new FRP crosstie products once the products are recognized by, and mass production orders are expected from potential customers	3.7	
– Procurement of testing equipment for continuous research and development in order to further optimize the production process of the new FRP crosstie products	0.6	
3. Enhancement of the research and development capabilities by		
– Procurement of testing equipment and raw materials for the existing product portfolio	0.3	
– Recruitment of additional research and development staff	0.3	

Business objective	Planned use of proceeds <i>HK\$'million</i>	Actual use of proceeds <i>HK\$'million</i>
4. General working capital		
– Deployment of funds to accommodate the working capital needs, in particular relating to the upcoming production of the new FRP crosstie products	1.1	
	<u>13.6</u>	<u>0.33</u>

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 March 2017, the interests and short positions of the Directors and chief executive of the Company in Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) pursuant to section 352 of the SFO to be entered in the register referred to therein pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors and to be notified to the Company and the Stock Exchange were as follows:

(i) Long position in the Shares

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

Notes:

1. Mr. Jiang beneficially owns 100% of the entire issued share capital of Singa Dragon International Ventures Limited ("Singa"). Therefore, Mr. Jiang is deemed, or taken to be, interested in all the Shares held by Singa for the purposes of the SFO.
2. Pursuant to the concert party deed (the "Concert Party Deed") entered into among Mr. Shen Weixing ("Mr. Shen"), Mr. Jiang, Munsing Developments Limited ("Munsing") and Singa dated 16 December 2016, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Repurchases) since 1 January 2014, and that Mr. Shen, Mr. Jiang, Munsing and Singa are parties acting in concert in the course of the Reorganisation and until the date of any written termination by them. As such, Mr. Jiang, together with Mr. Shen, Munsing and Singa together control 75% of the entire share capital of the Company.

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

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

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the three months ended 31 March 2017 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 three months ended 31 March 2017.

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

As at 31 March 2017, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interest or short position in Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

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

Notes:

1. Mr. Shen beneficially owns 100% of the entire issued share capital of Munsing. Therefore, Mr. Shen is deemed, or taken to be, interested in all the Shares held by Munsing for the purposes of the SFO.
2. Pursuant to the Concert Party Deed, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Repurchases) since 1 January 2014, and that Mr. Shen, Munsing, Singa and Mr. Jiang are parties acting in concert in the course of the Reorganisation and until the date of any written termination by them, As such, Mr. Shen, Munsing, Singa and Mr. Jiang together control 75% of the entire share capital of the Company.
3. Ms. Gong Hui is the spouse of Mr. Shen and is deemed or taken to be interested in all the Shares in which Mr. Shen has, or is deemed to have, an interest for the purpose of the SFO.
4. Ms. Chen Lijuan is the spouse of Mr. Jiang and is deemed or taken to be interested in all the Shares in which Mr. Jiang has, or is deemed to have, an interest for the purpose of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the three months ended 31 March 2017, the Group did not enter into any transactions which need to be disclosed as connected transactions or continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

Details of the material related party transactions are set out in note 10 of this report. These related party transactions did not constitute connected transactions or continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

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

During the three months ended 31 March 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed Shares.

COMPETING INTERESTS

The Directors confirm that none of the controlling shareholders of the Company, namely Mr. Shen, Mr. Jiang, Munsing and Singa, the Directors and their respective close associates (as defined in the GEM Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the three months ended 31 March 2017 and up to the date of this report.

INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Group has appointed KGI Capital Asia Limited as our compliance adviser (the "Compliance Adviser") for the provision of advice and guidance to the Group in respect of compliance with the applicable laws and the GEM Listing Rules including various requirements relating to directors' duties and internal controls. Except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 14 March 2016, neither the Compliance Adviser nor its Directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' dealing in securities of the Company. All Directors have complied with such code of conduct and the required standard of dealings for the three months ended 31 March 2017.

CORPORATE GOVERNANCE CODE

The Directors consider that since the Shares were listed on 13 January 2017, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 16 December 2016 with written terms of reference based on the code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules. The audit committee comprises of three members, namely Mr. Ng Sai Leung, Mr. Tam Tak Kei Raymond and Mr. Huang Xin, all being independent non-executive Directors. Mr. Ng Sai Leung currently serves as the chairman of the audit committee.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance. The Group's unaudited results for the three months ended 31 March 2017 have been reviewed by the audit committee.

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

Hong Kong, 11 May 2017

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

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