



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



THIRD 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.

This report, for which the directors (“Directors”) of MEIGU Technology Holding Group Limited (“Company”) collectively and individually accepts full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“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 announcement 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”) announces the unaudited results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2017, together with comparative figures for the same corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	4	18,262	15,570	49,357	43,451
Cost of sales		(10,510)	(8,530)	(30,532)	(26,882)
Gross profit		7,752	7,040	18,825	16,569
Other revenue	5	1,754	88	1,871	110
Other net income	5	–	83	–	586
Selling and distribution costs		(1,319)	(1,505)	(4,546)	(4,122)
Administrative expenses		(3,635)	(4,154)	(10,394)	(10,588)
Profit from operations		4,552	1,552	5,756	2,555
Finance costs	6(a)	(290)	(272)	(815)	(860)
Profit before taxation	6	4,262	1,280	4,941	1,695
Income tax	7	(1,520)	(615)	(2,670)	(2,139)
Profit/(Loss) for the period		2,742	665	2,271	(444)
Other comprehensive income for the period		–	–	–	–
Total comprehensive income/ (loss) for the period		2,742	665	2,271	(444)

	For the three months ended 30 September		For the nine months ended 30 September	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Profit/(Loss) and total comprehensive income/ (loss) for the period attributable to:				
Owners of the Company	2,742	665	2,271	(517)
Non-controlling interests	-	-	-	73
	<u>2,742</u>	<u>666</u>	<u>2,271</u>	<u>(444)</u>
Earnings/(Loss) per share				
	RMB cent	RMB cent	RMB cent	RMB cent
Basic and diluted	0.69	0.22	0.57	(0.17)

Notes

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to owners of the Company

	Share capital	Share premium	Capital Reserve	Share-based payment reserve	Statutory reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016 (Audited)	-	-	9,557	-	2,855	17,384	29,796	3,825	33,621
Loss and total comprehensive loss for the period	-	-	-	-	-	(517)	(517)	73	(444)
Issuance of shares	-	-	12,584	-	-	-	12,584	-	12,584
Repurchase of shares	-	-	(12,584)	-	-	-	(12,584)	-	(12,584)
Acquisition of non-controlling interest	-	-	-	-	-	(544)	(544)	(3,898)	(4,442)
Equity-settled share-based payments	-	-	-	233	-	-	233	-	233
Transfer to statutory reserve	-	-	-	-	341	(341)	-	-	-
At 30 September 2016 (Unaudited)	-	-	9,557	233	3,196	15,982	28,968	-	28,968
At 1 January 2017 (Audited)	-	-	9,557	333	3,258	8,666	21,814	-	21,814
Profit and total comprehensive income for the period	-	-	-	-	-	2,271	2,271	-	2,271
Placing of shares	886	30,136	-	-	-	-	31,022	-	31,022
Issuance of shares by capitalization	2,714	(2,714)	-	-	-	-	-	-	-
Transaction costs for placing and capitalization issue of shares	-	(6,522)	-	-	-	-	(6,522)	-	(6,522)
Equity-settled share-based payments	-	-	-	300	-	-	300	-	300
Transfer to statutory reserve	-	-	-	-	474	(474)	-	-	-
At 30 September 2017 (Unaudited)	3,600	20,900	9,557	633	3,732	10,463	48,885	-	48,885

NOTES:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 13 January 2016 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares have been listed on 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 are principally engaged in the research and development, production and sales of fibreglass reinforced plastic products in the PRC. The principal business of the Group 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 nine months ended 30 September 2016.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's unaudited consolidated results for the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 30 September		For the nine months ended 30 September	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Sales of fiberglass reinforced plastic				
– fiberglass reinforced plastic ("FRP") grating	11,092	10,643	31,027	32,174
– United States Coast Guard ("USCG") approved phenolic grating	2,282	2,970	7,095	7,856
– FRP subway evacuation platform	–	–	1,713	67
– epoxy wedge strip	2,447	1,957	7,081	3,354
– FRP crossties	2,441	–	2,441	–
	18,262	15,570	49,357	43,451

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.

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

5. OTHER REVENUE AND OTHER NET INCOME

	For the three months ended 30 September		For the nine months ended 30 September	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Other revenue				
Interest income on bank deposits	7	3	12	17
Government subsidies	1,747	85	1,787	93
Sundry income	-	-	72	-
	<u>1,754</u>	<u>88</u>	<u>1,871</u>	<u>110</u>
Other net income				
Net foreign exchange gain	-	83	-	206
Reversal of impairment loss on trade and bills receivables	-	-	-	380
	<u>-</u>	<u>83</u>	<u>-</u>	<u>586</u>

6. PROFIT BEFORE TAXATION

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
(a) Finance costs				
Interest on bank borrowings	<u>290</u>	<u>272</u>	<u>815</u>	<u>860</u>
(b) Staff costs (including directors' emoluments)				
Salaries, wages and other benefits	2,705	1,995	7,625	6,142
Contributions to defined contribution retirement plans	253	520	804	1,186
Equity-settled share-based payments	<u>100</u>	<u>116</u>	<u>300</u>	<u>233</u>
	<u>3,058</u>	<u>2,631</u>	<u>8,729</u>	<u>7,561</u>
(c) Other items				
Amortisation of prepaid lease payments	9	9	28	28
Reversal of impairment loss on trade and bills receivables	-	-	-	(380)
Depreciation for property, plant and equipment	450	460	1,319	1,360
Cost of inventories recognised as expense (note (i))	10,510	8,530	30,533	26,882
Research and development costs (note (ii))	<u>1,239</u>	<u>579</u>	<u>2,174</u>	<u>1,117</u>

Notes:

- (i) Cost of inventories recognised as expenses include RMB4,454,000 (9 months ended 30 September 2016: RMB3,637,000) relating to staff costs, and RMB 754,000 (9 months ended 30 September 2016: RMB765,000) 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) Including in the research and development costs are staff cost of RMB687,000 (9 months ended 30 September 2016: RMB600,000) 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 30 September		For the nine months ended 30 September	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current tax				
PRC Enterprise Income Tax ("EIT") on profits of the Group's subsidiary	1,209	415	1,953	1,448
Deferred tax				
Origination and reversal of temporary differences in respect of				
– reversal of impairment loss on trade and bills receivables	–	–	–	95
– withholding tax on distributable profits of the Group's PRC subsidiary	311	200	717	596
	311	200	717	691
	1,520	615	2,670	2,139

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

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

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Profit before taxation	4,262	1,280	4,941	1,695
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	1,525	415	2,269	1,490
Tax effect of non-deductible expenses	(316)	-	(316)	(224)
Under-provision in prior year	-	-	-	277
Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiary	311	200	717	596
Actual tax expense	1,520	615	2,670	2,139

8. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the nine months ended 30 September 2017 (9 months ended 30 September 2016: Nil).

9. EARNINGS/(LOSS) PER SHARE

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
Profit/(Loss) attributable to owners of Company for the purpose of calculating basic earnings/(loss) per share (RMB'000)	<u>2,742</u>	<u>665</u>	<u>2,271</u>	<u>(517)</u>
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share ('000)	<u>400,000</u>	<u>300,000</u>	<u>395,956</u>	<u>300,000</u>

The number of ordinary shares for the purpose of calculating basic earnings/(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 earnings/(loss) per share was presented as there was no potential ordinary shares outstanding in the above 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.

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

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 30 September		For the nine months ended 30 September	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Short-term employee benefits	1,278	204	1,831	613
Post-employment benefits	49	43	129	124
Equity-settled share-based payments	100	100	300	233
	1,427	347	2,260	970

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, FRP crossties for use in railways has been developed for commercial production commencing from August 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 upgrade of research 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 at a slower pace. Despite from such, given that the market acceptance of the USCG Approved Phenolic Grating products and FRP Subway Evacuation Platform products in China is growing, it is expected that the market scale will further expand at a 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 RMB49.4 million for the nine months ended 30 September 2017, representing an increase of approximately RMB5.9 million or 13.6% as compared to the corresponding nine months in 2016. The increase in revenue was primarily driven by the strong increase in sales revenue generated from sales of FRP Subway Evacuation Platform products, Epoxy Wedge Strip products and FRP Crosstie products, a new product line launched since August 2017, which was partially offset by a slight decrease of sales in FRP Grating and USCG Approved Phenolic Grating products.

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

	For the nine months ended 30 September 2017		For the nine months ended 30 September 2016	
	Sales revenue RMB'000	Gross profit margin %	Sales revenue RMB'000	Gross profit margin %
FRP Grating products	31,027	37.1	32,174	36.7
USCG Approved Phenolic Grating products	7,095	42.7	7,856	40.7
FRP Subway Evacuation Platform products	1,713	28.8	67	22.4
Epoxy Wedge Strip products	7,081	40.5	3,354	46.6
FRP Crosstie products	2,441	37.3	—	—
	49,357	38.1	43,451	38.1

For the nine months ended 30 September 2017, sales of FRP Grating products remained the largest contributor to the Group's revenue and it accounted for approximately 62.9% (9 months ended 30 September 2016: 74.0%) of the total revenue. FRP Grating products were mainly sold to corporate customers in the PRC who generally are end-users of such products, as well as distributors in the United States of America ("U.S.") and the United Kingdom ("U.K.") who generally buy the products on per purchase order basis with no distribution arrangement. Revenue derived from sales of FRP Grating products reduced by approximately 3.6% from approximately RMB32.2 million for the nine months ended 30 September 2016 to approximately RMB31.0 million for the nine months ended 30 September 2017. This is mainly attributable to the reduction in sales to the major customers in the U.S. and the U.K.. 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 approximately 9.7% from approximately RMB7.9 million for the nine months ended 30 September 2016 to approximately RMB7.1 million for the nine months ended 30 September 2017. Due to the reduction in number of ships manufactured by one of the shipbuilders in the PRC, orders for the USCG Approved Phenolic Grating products were consequently cut down by this customer. While the gross profit margin for this customer is generally lower in comparison with other customers under this product line, the reduction in sales to the customer has, in fact, a positive effect of the overall gross profit margin under the product category, which has led to an increase in gross profit margin by 2.0% from 40.7% for the nine months ended 30 September 2016 to 42.7% for the nine months ended 30 September 2017.

FRP Subway Evacuation Platform products were sold to main contractors who are principally engaged in railway construction works in the PRC. Revenue derived from sales of FRP Subway Evacuation Platform products increased drastically by over 24 times from approximately RMB67,000 for the nine months ended 30 September 2016 to approximately RMB1.7 million for the nine months ended 30 September 2017. The extremely low level of sales in the nine months ended 30 September 2016 was mainly because of the delay in the progress of railway construction projects undertaken by the customers whereas the resumption of the railway construction projects during the nine months ended 30 September 2017 accounted for the substantial increase in sales of this product category. The gross profit margin increased by 6.4% from 22.4% for the nine months ended 30 September 2016 to 28.8% for the nine months ended 30 September 2017. This is primarily due to the fact that the increase in sales and production volume has lowered the fixed costs of production per unit.

Epoxy Wedge Strip products were developed and launched in 2014 which targeted for manufacturers of wind turbine blades in the PRC. The revenue derived from sales of Epoxy Wedge Strip products increased substantially by approximately RMB3.7 million or 111.1% from approximately RMB3.4 million for the nine months ended 30 September 2016 to approximately RMB7.1 million for the nine months ended 30 September 2017. This significant increase is mainly due to the fact that some new domestic customers placing orders for such products were only secured in July 2016 and hence the sales revenue generated during the nine months ended 30 September 2016 was very low compared to that of the nine months ended 30 September 2017. The gross profit margin reduced by 6.1% from 46.6% for the nine months ended 30 September 2016 to 40.5% for the nine months ended 30 September 2017. This is largely attributable to the reduction of selling price to capture a larger market share.

FRP Crosstie products were developed in line with the PRC's policies in promoting "Belt and Road Initiatives". It is intended to apply as the replacement of wooden crossties for the railway sector. The target customers of such products are (i) PRC railway corporations; and (ii) corporations which participate in the construction of national railway bridges. The FRP crosstie products have been rolled for commercial production from August 2017. The Group recorded sales revenue of approximately RMB2.4 million for the FRP crosstie products in the three months ended 30 September 2017, which has contributed a gross profit margin of 37.3% in the same period.

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

	For the nine months ended 30 September 2017		For the nine months ended 30 September 2016	
	Average selling price per unit <i>RMB</i>	Volume	Average selling price per unit <i>RMB</i>	Volume
FRP Grating products (m ²)	270.6	114,652	267.4	120,303
USCG Approved Phenolic Grating products (m ²)	580.8	12,215	555.7	14,138
FRP Subway Evacuation Platform products (m ²)	349.6	4,900	854.7	78
Epoxy Wedge Strip products (m)	49.9	141,712	23.0	145,783
FRP crosstie products (m ³)	16,276.9	150	–	–

The average selling price of the FRP Grating products per m² increased slightly by 1.2% from RMB267.4 per m² for the nine months ended 30 September 2016 to RMB270.6 per m² for the nine months ended 30 September 2017, with a reduction in sales volume of approximately 4.7% on comparison between the two periods. The increase in average selling price was mainly due to normal fluctuation in prices of different FRP Grating products and the variation in the composition of higher priced FRP Grating products sold.

The average selling price of the USCG Approved Phenolic Grating products per m² increased by approximately 4.5% from RMB555.7 per m² for the nine months ended 30 September 2016 to RMB580.8 per m² for the nine months ended 30 September 2017, with a reduction in sales volume of approximately 13.6% 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 FRP Subway Evacuation Platform products per m² reduced by approximately 59.1% from RMB854.7 per m² for the nine months ended 30 September 2016 to RMB349.6 per m² for the nine months ended 30 September 2017, with a substantial increase in sales volume of over 60 times on comparison between the two periods. The reduction in average selling price was mainly due to the difference in specification for the same product type, which allowed the Group to charge a higher average selling price in the nine months ended 30 September 2016.

The average selling price of the Epoxy Wedge Strip products per m increased substantially by over 100% from RMB23.0 per m for the nine months ended 30 September 2016 to RMB49.9 per m for the nine months ended 30 September 2017, with a slight reduction in sales volume of approximately 2.8% on comparison between the two periods. This significant increase in average selling price was mainly due to the substantial increase in sale of product items with different shapes, weight and dimensions which procured higher average selling price.

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

	For the nine months ended 30 September	
	2017	2016
	RMB'000	RMB'000
PRC	29,183	23,980
U.S.	8,614	10,730
U.K.	6,794	7,173
Others	4,766	1,568
	<hr/>	<hr/>
Total	49,357	43,451
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Sales in the PRC market increased by approximately 21.7% from approximately RMB24.0 million for the nine months ended 30 September 2016 to approximately RMB29.2 million for the nine months ended 30 September 2017, which is mainly attributable to the increase in sales of Epoxy Wedge Strip products and FRP crosstie products to the PRC customers during the nine months ended 30 September 2017.

Sales to the U.S. market decreased by approximately 19.7% from approximately RMB10.7 million for the nine months ended 30 September 2016 to approximately RMB8.6 million for the nine months ended 30 September 2017, mainly because of the decrease in sales to one of the major customers in the U.S.

Sales to the U.K. market reduced by approximately 5.3% from approximately RMB7.2 million for the nine months ended 30 September 2016 to approximately RMB6.8 million for the nine months ended 30 September 2017, mainly because of the decrease in sales to one of the major customers in the U.K.

Sales to the other locations increased substantially by approximately 204.0% from approximately RMB1.6 million for the nine months ended 30 September 2016 to approximately RMB4.8 million for the nine months ended 30 September 2017, mainly because of new customers acquired in Lithuania and Australia.

Operating costs and expenses

The selling and distribution costs increased by approximately RMB424,000, an increase of approximately 10.3% to approximately RMB4.5 million for the nine months ended 30 September 2017 from approximately RMB4.1 million for the nine months ended 30 September 2016. The increase was mainly attributed to the increase in staff costs and exhibition fees.

There was a slight reduction in administrative expenses by approximately 1.8% in comparison between the nine months ended 30 September 2017 and the corresponding nine months in 2016. This is primarily due to the conscientious effort made by the management to control the expenses of the Group despite the increase in sales revenue for the nine months ended 30 September 2017.

Finance costs decreased by approximately RMB45,000 to approximately RMB815,000 for the nine months ended 30 September 2017 from approximately RMB860,000 for the nine months ended 30 September 2016. The decrease was mainly due to the general reduction in the bank interest rates during the nine months ended 30 September 2017.

Operating results

There was a turnaround in the operating results of the Group from a loss of approximately RMB444,000 for the nine months ended 30 September 2016 to a profit of approximately RMB2.3 million for the nine months ended 30 September 2017. This is largely due to the increase in sales revenue of the Group and the government subsidies of approximately RMB1.8 million granted in the nine months ended 30 September 2017.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLAN

As the Shares were listed on 13 January 2017, the Group was at its first year of implementing its business objectives and strategies during the nine months ended 30 September 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 nine months ended 30 September 2017 is as follows:

Business objectives	Planned use of proceeds (HK\$'000)	Actual use of proceeds (HK\$'000)
1. The enhancement of the existing production processes, and acquisition of new production facilities		
– Enhancement of the existing pultrusion equipment and associated resin basins and pre-form machine to improve product quality and optimize production costs	700	700
– Purchase hydraulic presses to produce the parts for the FRP Subway Evacuation Platform products	2,400	– (Note 1)

Business objectives	Planned use of proceeds (HK\$'000)	Actual use of proceeds (HK\$'000)
<ul style="list-style-type: none"> - Automation of the cutting process of the pultrusion production process to improve the cutting precision level and reduce labour costs 	600	600
<ul style="list-style-type: none"> - Purchase of automated FRP moulding production facilities to further enhance the product quality and lower the labour costs 	2,800	300 <i>(Note 2)</i>
<p>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"</p>		
<ul style="list-style-type: none"> - Refine the features and characteristics of the new FRP crosstie products via communication with the existing and potential customers and conduct trial production 	900	780
<ul style="list-style-type: none"> - Development of the relevant quality control and testing equipment of the new FRP crosstie products 	200	190
<ul style="list-style-type: none"> - 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 	3,700	343 <i>(Note 3)</i>

Business objectives	Planned use of proceeds (HK\$'000)	Actual use of proceeds (HK\$'000)
– Procurement of testing equipment for continuous research and development in order to further optimize the production process of the new FRP crosstie products	600	447
3. Enhancement of the research and development capabilities by		
– procurement of testing equipment and raw materials for the existing product portfolio	300	300
– recruitment of additional research and development staff	300	34 <i>(Note 4)</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	1,100	1,100
	13,600	4,794

Notes:

- (1) Due to the rescheduling of the production plan for the cable scaffold of the FRP Subway Evacuation Platform products, acquisition of hydraulic presses will be deferred to the last quarter of 2017.
- (2) Purchase of automated FRP moulding production facilities depends on the progress in the research and development of new products with better quality and lower labour costs, the schedule and timing of which cannot be estimated precisely. However, it is expected that there will be further spending on the automation of the production facilities in the last quarter of 2017.

- (3) As the design and development of the new production lines for the FRP crosstie products is expected to be completed by December 2017, there will be further use of proceeds in the last quarter of 2017 for the purchase of new production equipment.
- (4) During the nine months ended 30 September 2017, there was only one additional research and development staff hired in May 2017. The Group will continue to seek for suitable employees with appropriate calibre in the last quarter of 2017 so as to enhance the research and development capabilities.

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

As at 30 September 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 (Notes 1 and 2)	interest held jointly with other persons; interest in a controlled corporation	300,000,000	75%

Notes:

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

DIRECTOR’S RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the nine months ended 30 September 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 anybody 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 nine months ended 30 September 2017.

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

As at 30 September 2017, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in 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 (<i>Notes 1 and 2</i>)	interest held jointly with other persons; interest in a controlled corporation	300,000,000	75%
Munsing (<i>Notes 1 and 2</i>)	interest held jointly with other persons; beneficial owner	300,000,000	75%
Singa (<i>Note 2</i>)	interest held jointly with other persons; beneficial owner	300,000,000	75%
Ms. Gong Hui (<i>Note 3</i>)	interest of spouse	300,000,000	75%
Ms. Chen Lijuan (<i>Note 4</i>)	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 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 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 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 nine months ended 30 September 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 nine months ended 30 September 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

The Directors confirm that none of the controlling shareholders, namely Mr. Shen, Mr. Jiang, Munsing and Singa, the Directors and their respective close associates (as defined in the GEM Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the nine months ended 30 September 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 the 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. The Directors confirmed that they have complied with such code of conduct and the required standard of dealings for the nine months ended 30 September 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 of the Corporate Governance Practice of the GEM Listing Rules. The audit committee comprises of three members, namely Mr. Ng Sai Leung, Mr. Tam Tak Kei Raymond and Mr. Huang Xin, all being independent non-executive Directors. Mr. Ng Sai Leung currently serves as the chairman of the audit committee.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control and risk management systems, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance. The Group's unaudited results for the nine months ended 30 September 2017 have been reviewed by the audit committee.

By order of the Board

MEIGU Technology Holding Group Limited

Jiang Guitang

Executive Director

Hong Kong, 6 November 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 Stock Exchange's website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from the date of its posting and on the website of the Company at nantongrate.com.