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

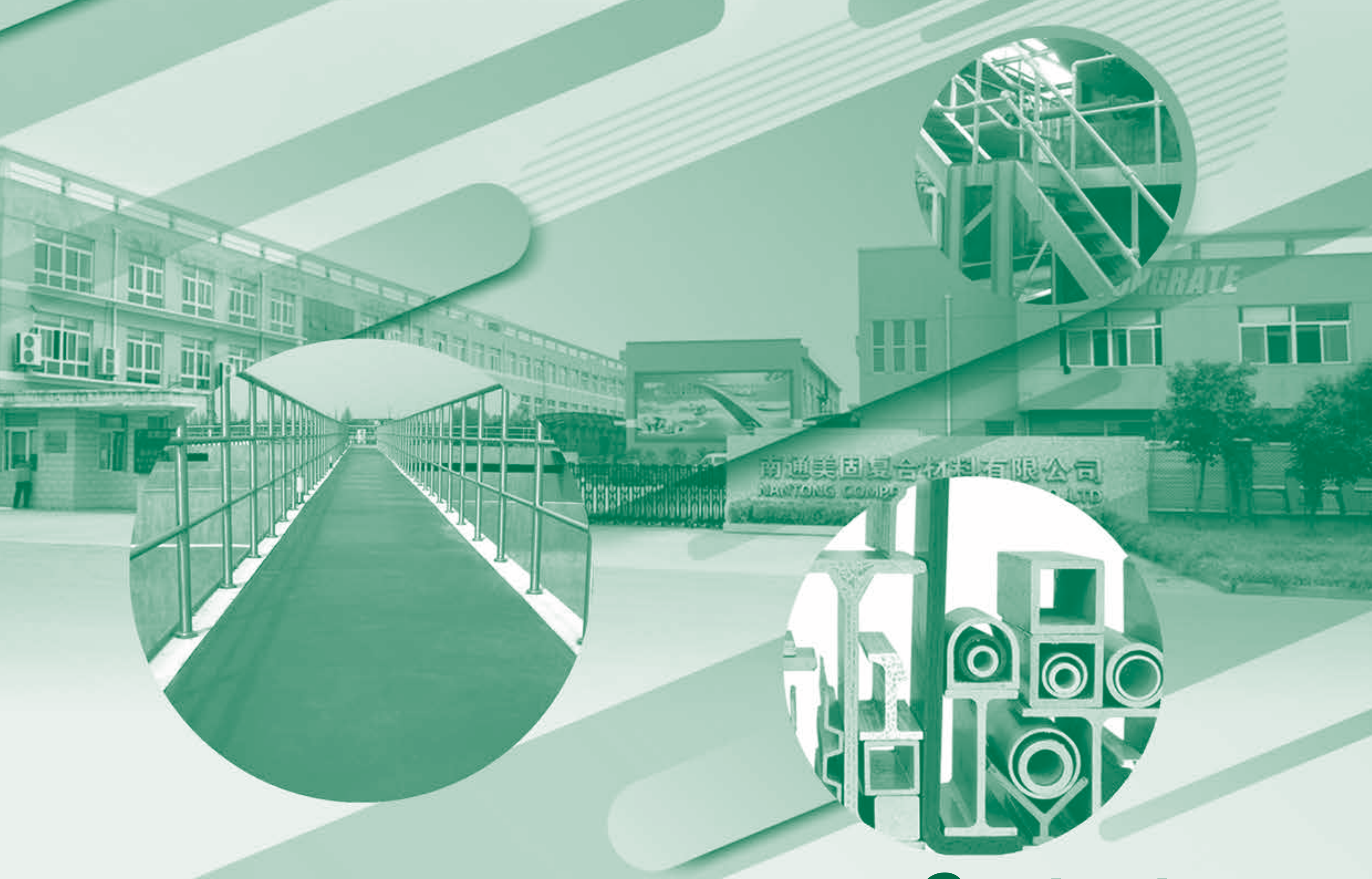
ANNUAL REPORT 2019

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

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

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

This report, for which the board (the "Board") of directors (the "Directors") of MEIGU Technology Group Holding Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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.nantonggrate.com

STOCK CODE

8349

PRINCIPAL BANKER

Wing Lung Bank Limited
G/F, Wing Lung Bank Building
45 Des Voeux Road
Central, Hong Kong

AUDITOR

Crowe (HK) CPA Limited
Certified Public Accountant
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77 Leighton Road
Causeway Bay, Hong Kong

REGISTERED OFFICE

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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, 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 Investor Services Limited
Level 54, 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 2019 to the shareholders (the "Shareholders") of the Company.

REVIEW

Both domestic and international economies were still mired in complex and grim conditions amidst global economy slowdown, coupled with increasing external uncertainties in 2019. The Chinese economic growth slowed down in face of escalating China-US trade frictions and growing downward pressure. During the year of 2019, growth of China's gross domestic product slowed down to 6.1%, which was below market expectations of 6.6%. However, the manufacturing purchasing managers' index rebounded to 51.5% in December 2019 from 48.3% in January 2019, which indicated a return to an expansion territory. With the steady progress of economic restructuring and successive implementation of policies and measures to support the development of the economy, confidence was hence restored to a fair extent.

For the financial year ended 31 December 2019, fiberglass reinforced plastic ("FRP") grating products remained the most popular products of the Group, which accounted for approximately 66.0% of the total sales of the Group. Thanks to the marketing efforts, there was an increase in both sales revenue and volume over those of 2018. In addition, quality of FRP grating products was 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 held in the PRC and overseas. For the year ended 31 December 2019, revenue generated from overseas sales (including U.S. and U.K.) amounted to approximately RMB38.8 million, which accounted for approximately 48.3% of the total sales of the Group, has decreased by approximately 6.13% from that of 2018.

Chairman's Statement

PROSPECTS

Although the U.S. and the PRC governments entered into an agreement for easing the tension of the trade war in January 2020, there was no sign of removing the import tariff of the Group's products sold to the U.S., which took effect from 1 September 2019. Since most of the import tariff for the U.S. exports of the Group was born by the U.S. importer, it is expected that the tariff levied on the Group's U.S. export will not cause significant impact to the Group financially.

Economic environment remains uncertain as the second phase of trade negotiation between the U.S. and PRC governments is being withheld as a result of the outbreak of the novel coronavirus (COVID-19). In order to cater for this uncertainty, the Group will need to take part more rigorously in tender bidding for all potential projects both in the PRC and the overseas markets. Moreover, the Group will continue to enhance product recognition by improving production technology so as to maintain effective cost control and strengthen the competitiveness. Further, the Group will recruit more experienced talents to fulfil the Group's mission in product research, development and market expansion.

After the outbreak of the COVID-19, the PRC central government has adopted a series of prevention and control measures, including the regional traffic control, restrictions or suspension of sports activities and entertainment, as well as delayed resumption of factory production, etc. This has undoubtedly led to temporary negative impact to the economic activities and hence the PRC central government has implemented a series of measures to mitigate the negative impact to the economy, such as reduction of tax, fees, interest rate and rent. Given the resilience and potential of China's economy in the long run, it is believed that stable growth would remain unchanged.

Looking ahead, the Group remains prudent and optimistic about the prospects of its business in the long run. The Group will follow a cautious approach to ensure continuous, steady and effective business and operation development in 2020. While the Group is closely monitoring the latest development of the epidemic disease resulting from the outbreak of the COVID-19 and its impact on the industry at large, It would adjust its strategies from time to time when required.

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 the Shareholders for their long-term support.

Cheng Dong
Chairman
24 April 2020

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 components for corrosive environment.

Given that FRP delivers outstanding performance as a comparatively new type of materials and as a substitute of traditional materials such as wood, concrete and metal, and the potential application of products made of FRP composites in a wide range of fields such as aerospace, energy and transportation industries, the management expects that the overall FRP market in China will grow at a revised CAGR of 5.0% for the next two years in the light of gradual maturity and better understanding of the FRP market in future.

The Group continues to enhance product recognition by improving production technology in order to maintain effective cost control and strengthen the competitiveness. Meanwhile, the Group will recruit more talents to fulfill its development and expansion. The Board believes that research and development capabilities are essential to the future growth of the Group. In the year ended 31 December 2019, the Group spent approximately RMB7.8 million (2018: approximately RMB3.4 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. Mr. Jiang has accumulated over 30 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 2020.

Leveraging on market trend information gathered by the sales and marketing team and participation in drafting the PRC industry standards, the Group constantly keeps track of developments and trends in the FRP industry worldwide. Over the past years, the Group closely followed up with the PRC government's macroeconomic stimulus when carrying out the research and development works. Moreover, the Group adheres to the policy in promoting its products especially FRP crosstie products in countries along the "Belt and Road Initiatives". With all these efforts, the Groups is hopeful that the performance of composite subway evacuation platform products and FRP crosstie products would turn around in the following year.

Management Discussion and Analysis

It is generally believed that effective market is important in capturing the market share and attracting potential customers and as such, in the year ended 31 December 2019, the Group undertook the following marketing activities:

i. participation in trade fairs and sales conventions including the JEC World 2019 held in France and WEFTEC 2019 held in the U.S.;

ii. placing advertisements on the internet such as an online trading platform Made-in-China.com (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 2019, 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 2019, there were no material work-related injuries or fatalities at the production facilities, and no prosecution has been made against the Group by the relevant government authorities in the PRC in respect of the breach of applicable health and safety laws and regulations.

Detailed measures on minimizing any negative impact on the environment and occupational health and safety are set out in the environment, social and governance report on pages 38 to 46 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 expending 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 products market going forward.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB80.3 million for the year ended 31 December 2019, representing an increase of approximately RMB5.7 million or 7.6% as compared to the corresponding period in 2018. The increase in revenue was primarily driven by the substantial 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 year ended 31 December			
	2019		2018	
	Sales revenue	**Gross profit margin**	Sales revenue	Gross profit margin
	RMB'000	**%**	RMB'000	%
FRP grating products	**52,982**	**31.4**	55,541	34.4
USCG approved phenolic grating products	**2,094**	**47.9**	2,919	44.2
Composite subway Evacuation platform products	**–**	**–**	1,912	15.4
Epoxy wedge strip products	**25,193**	**53.5**	12,749	29.9
FRP crosstie products	**–**	**–**	1,463	22.5
	80,269	**38.7**	74,584	31.7

In the year ended 31 December 2019, sales of FRP grating products remained the largest contributor to the Group's revenue and it accounted for approximately 66.0% (2018: 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 has decreased by 4.6% from approximately RMB55.5 million in the year ended 31 December 2018 to approximately RMB53.0 million in the year ended 31 December 2019. This was mainly due to the decrease in sales in the overseas market. The gross profit margin decreased by approximately 3 percentage points from 34.4% to 31.4%, 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 decreased by 28.3% from approximately RMB2.9 million for the year ended 31 December 2018 to approximately RMB2.1 million for the year ended 31 December 2019. The sharp reduction was due to the downturn in the shipbuilding industry in China and nearby surrounding countries, which caused the customers to be more conservative on placing new orders. The gross profit margin increased by approximately 3.7 percentage points from 44.2% for the year ended 31 December 2018 to 47.9% for the year ended 31 December 2019. 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. Due to the prolonged suspension in placing order from railway construction customers, there was no revenue derived from sales of composite subway evacuation platform products for the year ended 31 December 2019.

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 RMB12.4 million or 97.6% from approximately RMB12.7 million for the year ended 31 December 2018 to approximately RMB25.2 million for the year ended 31 December 2019. 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 imposition of controlling measures by the government. The gross profit margin increased by approximately 23.6 percentage points from approximately 29.9% for the year ended 31 December 2018 to 53.5% for the year ended 31 December 2019. The increase in gross profit margin can be explained by the increase in selling price and the enhancement of production efficiency resulting from the increase in production output without noticeable increase in production costs.

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 crosstie for the railway sector. The target customers of such products are (i) PRC railway corporation; and (ii) corporations which participate in the construction of national railway bridges. Due to the prolonged suspension in placing order from railway construction customers, there was no revenue derived from sales of FRP crosstie products for the year ended 31 December 2019.

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

	For the year ended 31 December			
	2019		2018	
	Average selling price per unit	**Volume**	Average selling price per unit	Volume
	RMB		RMB	
FRP grating products	**272.4**	**194,479 m²**	281.1	197,606 m²
USCG approved phenolic grating products	**663.3**	**3,157 m²**	623.2	4,684 m²
Composite subway evacuation platform products	**–**	**–**	349.6	5,468 m²
Epoxy wedge strip products	**64.5**	**390,552 m**	60.0	212,703 m
FRP crosstie products	**–**	**–**	17,931.0	81 m³

The average selling price of the FRP grating products per m^2 decreased by approximately 3.1% from RMB281.1 per m^2 for the year ended 31 December 2018 to RMB272.4 per m^2 for the year ended 31 December 2019, with a decrease in sales volume of approximately 1.6% in comparison between the two years. The slight decrease in average selling price was mainly due to the variations in the composition of lower priced FRP grating products sold.

The average selling price of the USCG approved phenolic grating products per m^2 increased by approximately 6.4% from RMB623.3 per m^2 for the year ended 31 December 2018 to RMB663.3 per m^2 for the year ended 31 December 2019, with a reduction in sales volume of approximately 32.6% on comparison between the two years. The increase in average selling price was mainly due to the increased level of complexity in the cutting technique which allowed an increase in the average selling price of this product category.

The average selling price of the epoxy wedge strip products per m increased by approximately 7.5% from RMB60.0 per m for the year ended 31 December 2018 to RMB64.5 per m for the year ended 31 December 2019, with an increase in sales volume of approximately 83.6% in comparison between the two years. Due to the significant increase in demand for epoxy wedge strip products, the Group was in a better position to fetch higher selling prices for epoxy wedge strip products.

Management Discussion and Analysis

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

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
PRC	**41,472**	33,256
U.S.	**17,994**	22,066
U.K.	**13,889**	12,782
Others	**6,914**	6,480
Total	**80,269**	74,584

Sales to the PRC market increased by approximately 24.7% from approximately RMB33.3 million for the year ended 31 December 2018 to approximately RMB41.5 million for the year ended 31 December 2019. This is mainly attributable to the significant increase in sales of epoxy wedge strip products to the PRC customers during the year ended 31 December 2019.

Sales to the U.S. market decreased by approximately 18.5% from approximately RMB22.1 million for the year ended 31 December 2018 to approximately RMB18.0 million for the year ended 31 December 2019, mainly because of the decrease in demands for FRP grating products by customers in the U.S. market.

Sales to the U.K. market increased by approximately 8.7% from approximately RMB12.8 million for the year ended 31 December 2018 to approximately RMB13.9 million for the year ended 31 December 2019, mainly because of the increase in sales orders from the major customers and acquisition of new customers in the U.K. market.

Sales to the other locations increased by approximately 6.7% from approximately RMB6.5 million for the year ended 31 December 2018 to approximately RMB6.9 million for the year ended 31 December 2019, mainly because of new customers acquired in Belgium, France and Canada.

Management Discussion and Analysis

OPERATING COSTS AND EXPENSES

Distribution costs decreased by approximately RMB0.6 million or 10.7% to approximately RMB5.0 million for the year ended 31 December 2019 from approximately RMB5.6 million for the year ended 31 December 2018. The decrease was mainly attributable to the decrease in wages and salaries, and exhibition expense.

Administrative expenses increased by approximately RMB4.3 million, a 31.5% increase to approximately RMB17.8 million for the year ended 31 December 2019 from approximately RMB13.5 million for the year ended 31 December 2018. The increase was mainly attributable to the increase in research and development expense, and impairment loss on inventory.

Finance costs decreased by approximately RMB0.4 million to approximately RMB0.6 million for the year ended 31 December 2019 from approximately RMB1.0 million for the year ended 31 December 2018. The decrease was mainly due to the repayment of bank loans and the reduction of bank interest rates for the year ended 31 December 2019.

OPERATING RESULTS

There was a substantial increase of approximately 136.3% in profit for the year from approximately RMB1.5 million for the year ended 31 December 2018 to approximately RMB3.5 million for the year ended 31 December 2019. This substantial increase in profit for the year ended 31 December 2019 was mainly attributable to (i) the increase in total revenue of Group for the year ended 31 December 2019; and (ii) the significant improvement in the gross profit margin of the products sold by the Group during the year ended 31 December 2019 compared to that of the corresponding year in 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group held total assets of approximately RMB81.6 million (2018: approximately RMB92.3 million), including cash and cash equivalents of approximately RMB19.5 million (2018: approximately RMB6.2 million).

As at 31 December 2019, the Group had total liabilities of approximately RMB28.4 million (2018: RMB43.0 million) which comprise trade and other payables of approximately RMB16.5 million (2018: RMB21.8 million) and bank borrowings of RMB5 million (2018: RMB15 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%, whereas, as at 31 December 2019, the gearing ratio was not quite meaningful as the Group had a significant amount of cash and cash equivalents to cover more than its bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no contingent liabilities (2018: Nil).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group is exposed to foreign exchange risk primarily through sales which give rise to receivables and cash balances that are denominated in 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 our overseas customers are generally valid for one to three months only;

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

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

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

In addition to the above, the Group is generally able to pass on the cost arising from the exchange rate fluctuations to the customers by adjusting the pricing. Hence, it is considered that the Group's exposure to foreign exchange risk is limited and it is not necessary to adopt any hedging strategy.

Management Discussion and Analysis

CHARGES ON GROUP ASSETS

As at 31 December 2019, the Group had the following charges on its assets:

(i) the right-of-use asset (2018: leasehold land) with a carrying value of RMB1,398,000 as at 31 December 2019 (2018: RMB1,436,000) and the buildings with a carrying value of RMB9,171,000 as at 31 December 2019 (2018: RMB9,417,000) were pledged for bank borrowings of RMB5,000,000 (2018: RMB15,000,000);

(ii) an aggregate amount of RMB1,200,000 (2018: RMB50,000) was placed in a bank account and pledged in favour of banks for bill issuance (2018: for customers in relation to certain sales transactions).

(iii) bills receivables of nil (2018: RMB6,800,000) were pledged to a bank in the PRC as securities for the issuance of bills by the Group.

CAPITAL STRUCTURE

As at 31 December 2019, the share capital and total equity attributable to equity holders of the Company amounted to approximately RMB3,600,000 (2018: RMB3,600,000) and RMB53,141,000 (2018: RMB49,267,000) respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 143 employees (2018: 135). The total staff costs including Directors' remuneration for the year were approximately RMB14.4 million (2018: approximately RMB13.2 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 2019 (2018: Nil).

Management Discussion and Analysis

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 2019.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associates and joint ventures as at 31 December 2019.

CASH FLOWS

Net cash generated from operating activities was approximately RMB20.6 million (2018: RMB10.3 million) for the financial year ended 31 December 2019. The increase in net cash generated was resulted from the increase in working capital generated from operating activities during the year ended 31 December 2019.

The group reported net cash flows of approximately RMB3.5 million generated from investing activities for the financial year ended 31 December 2019 compared to that of approximately RMB9.4 million used in investing activities for the corresponding year of 2018. The swing from cash outflows to cash inflows in respect of investing activities was largely due to the disposal of financial asset at fair value through other comprehensive income, which were bank wealth management products for short term investment purpose.

Net cash used in financing activities was approximately RMB10.6 million (2018: RMB6.1 million) for the financial year ended 31 December 2019. The increase in net cash used was mainly due to the increase in net outflows from the repayment of bank loans and proceeds from bank borrowings during the year ended 31 December 2019.

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 2019 is as follows:

Business objective	**Planned use of proceeds** (HK$'000)	**Actual use of proceeds** (HK$'000)
1. Enhancement of the existing production processes, and acquisition of new production facilities:		
– Enhancement of the existing pultrusion equipment and associated resin basins and pre-form machine to improve product quality and optimize production costs	850	850
– Purchase of hydraulic presses to produce the parts for the composite subway evacuation platform products	2,915	– *(Note 1)*
– Automation of the cutting process of the pultrusion production process to improve the cutting precision level and reduce labour costs	730	730
– Purchase of automated FRP moulding production facilities to further enhance the product quality and lower the labour costs	3,400	2,052 *(Note 2)*

Business objective	Planned use of proceeds (HK$'000)	Actual use of proceeds (HK$'000)
2. Further development of the products according to the expected growth trend as a result of the PRC's macroeconomic policies in promoting "Belt and Road Initiatives":		
– Redefine the features and characteristics of the new FRP crosstie products via communication with the existing and potential customers and conduct trial production	1,100	1,100
– Development of the relevant quality control and testing equipment of the new FRP crosstie products	245	245
– Development and purchase of new production equipment for the new FRP crosstie products once the products are recognized by, and mass production orders are expected from potential customers	4,520	417 *(Note 3)*
– Procurement of testing equipment for continuous research and development in order to further optimize the production process of the new FRP crosstie products	735	735

Business objective	Planned use of proceeds (HK$'000)	Actual use of proceeds (HK$'000)
3. Enhancement of the research and development capabilities by:		
– Procurement of testing equipment and raw materials for the existing product portfolio	350	350
– Recruitment of additional research and development staff	350	259 *(Note 4)*
4. General working capital		
– Deployment of funds to accommodate the working capital needs, in particular relating to the upcoming production of the new FRP crosstie products	1,400	1,400
	16,595	8,138

Note:

1. Acquisition of hydraulic presses will be materialized in the second half of 2020 as sales orders for the composite subway evacuation products are expected to be received in the second half of 2020.

2. Purchase of automated FRP moulding production facilities would depend on the progress in the research and development of new products with better quality and lower labour costs, the schedule and timing of which cannot be estimated precisely. However, it is expected that there will be further spending on the automation of the production facilities in the first half of 2020.

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

4. It is expected that additional suitable candidate with appropriate calibre would be hired in the second half year of 2020.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cheng Dong (成東), aged 44, is the chairman of the Board and was appointed as an executive Director on 16 March 2016. He 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 of the Company.

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 22 years' experience in sales. Before joining the Group, Mr. Cheng worked at the sales department of Jiangsu White Rabbit Textile Group Co., Ltd (江蘇白兔紡織集團股份有限公司) from May 1995 to February 2005, and was responsible for sales. Mr. Cheng joined the Group in August 2006 as sales personnel. He has been working as a vice president of sales, responsible for marketing development and maintenance, management of sales performance and implementation of sales strategies of the Group, since May 2013.

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

Mr. Jiang Guitang (姜桂堂), aged 54, is an executive Director, chief executive officer and one of the controlling Shareholders. 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 of the Company.

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 worked in the sales distribution 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 14 years' experience in the manufacturing and sales of FRP products.

Mr. Jiang has not held 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 45, 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 of the Company.

Ms. Shi completed an undergraduate course in accounting at The Open University of China (中央廣播電視大學) in January 2014. Ms. Shi has over 20 years of accounting experience and she is a non-practising member of the Chinese Institute of Certified Public Accountants. From August 1994 to May 2005, Ms. Shi worked as an accountant in Haimen Linen and Cotton Processing Factory (海門市棉麻加工廠). From March 2006 to October 2015, she worked as a head of accounting department in Nantong Sancon Electronic Technology Corporation (南通三鑫電子科技股份有限公司). She joined the Group in October 2015 as deputy executive officer.

Ms. Shi has not held directorship in any other public listed company in the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Huang Xin (黃昕), aged 37, 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 of the Company, and the chairman of the nomination committee of the Company.

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 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 56, 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 of the Company and a member of each of the audit committee and risk management committee of the Company.

Mr. Tam obtained a bachelor degree of arts in accounting with computing from the University of Kent at Canterbury, United Kingdom in July 1985. He is an associate member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Tam has been appointed as an independent non-executive director of Vision Fame International Holding Limited (stock code: 1315), CNQC International Holdings Limited (stock code: 1240) and Li Bao Ge Group Limited (stock code: 8102) since December 2011, September 2012 and June 2016 respectively. He is also the company secretary of Branding China Group Limited (stock code: 863) since April 2013. He was an independent non-executive director of Digital Domain Holdings Limited (stock code: 547) from September 2009 to August 2013; Zebra Strategic Holdings Limited, now known as Yin He Holdings Limited (stock code: 8260) from June 2012 to September 2014; Tianjin Jinran Public Utilities Company Limited (stock code: 1265) from February 2011 to June 2015; Ngai Shun Holdings Limited (stock code: 1246) from September 2013 to July 2015; and Beijing Enterprises Clean Energy Group Limited, previously known as Jin Cai Holdings Company Limited (stock code: 1250), from June 2013 to July 2016. He was also the chief financial officer of King Force Security Holdings Limited (stock code: 8315) during the period from April 2014 to November 2014.

Save as disclosed above, Mr. Tam has not held directorship in any other public listed company in the past three years.

Mr. Ng Sai Leung (吳世良), aged 47, 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 of the Company and a member of the nomination committee of the Company.

Mr. Ng obtained a bachelor degree in business administration from The University of Hong Kong in November 1995 and a master degree in business administration from The Chinese University of Hong Kong in December 2002. Mr. Ng is a fellow of American Institute of Certified Public Accountant and a Chartered Financial Analyst.

Mr. Ng has over 15 years of experience in corporate finance and accounting, including managing various initial public offerings, advising listed companies on mergers and acquisitions, reverse takeovers, privatisations, fund raising exercises and other corporate advisory transactions. Mr. Ng previously worked as an auditor in Ernst & Young Global Limited from August 1995 to March 1997, a junior internal officer in the private banking division of UBS Securities Asia Limited (previously known as Swiss Bank Corporation Hong Kong Branch) from March 1997 to February 1998, and an officer in the Compliance

Department in Hong Kong Futures Exchange Limited from March 1998 to September 1999. He worked in the corporate finance department of Tai Fook Capital Limited, now known as Haitong International Capital Limited, as an assistant manager, a manager and a senior manager respectively from September 1999 to April 2004. From April 2004 to May 2006, he consecutively worked as a senior manager and an associate director in Masterlink Securities (Hong Kong) Corporation Limited. Mr. Ng worked in CIMB Securities (Hong Kong) Limited as a vice president and a senior vice president of corporate finance division from June 2006 to August 2010 respectively. From August 2010 to January 2015, he worked as a director in the investment banking department of CMB International Capital Corporation Limited. Mr. Ng was a managing director of VBG Capital Limited from January 2015 to August 2019. He has been appointed as the Managing Director and Head of Corporate Finance for Shanxi Securities International Capital Limited in August 2019. Mr. Ng has been appointed as an independent non-executive director of Dongguang Chemical Limited (stock code: 1170) on 20 June 2017.

Save as disclosed above, Mr. Ng has not held directorship in any other public listed companies in the past three years.

SENIOR MANAGEMENT

Mr. Ng Chi Ho Dennis (吳志豪), aged 61, 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. He was respectively an independent non-executive director and a non-executive director of Sunrise (China) Technology Group Limited (stock code: 8226) from June 2014 to May 2015 and My Heart Bodibra Group Limited (stock code: 8297) from December 2018 to April 2019, the shares of both companies are listed on the GEM of the Stock Exchange. Mr. Ng is currently an independent non-executive director of Media Asia Group Holdings Limited (stock code: 8075), Kirin Group Holdings Limited (stock code: 8109), and L & A International Holdings Limited (stock code: 8195), 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.

Biographical Details of Directors and Senior Management

Save as disclosed above, Mr. Ng has not been a director of any other listed companies over the past three years.

Mr. Liu Dansheng (劉旦生), aged 52, 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 2019, the Company has complied with the provisions of the Code on Corporate Governance Practices (the "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) to 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.

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, 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. Cheng Dong and Mr. Jiang Guitang, will retire from office as 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 of the Company 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 the 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) the 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.

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 2019, the continuous professional development taken by respective Directors are as follows:

	Corporate governance, rules and regulations (including directors' duties)	Financial, management and other business skills and knowledge
Executive Directors		
Mr. Cheng Dong	✓	✓
Mr. Jiang Guitang	✓	✓
Ms. Shi Dongying	✓	✓
Independent Non-executive Directors		
Mr. Huang Xin	✓	✓
Mr. Tam Tak Kei Raymond	✓	✓
Mr. Ng Sai Leung	✓	✓

BOARD MEETINGS

Pursuant to code provision A.1.1 of the CG Code, the Board should meet regularly and Board meetings should be held at least four times a year. Additional meetings would be arranged if and when required. Board members are provided with all agenda and adequate information for their review within reasonable time before the meetings. After the meetings, draft minutes are circulated to all Directors for comments before confirmation. Minutes of board meetings and meetings of board committees are kept by the company secretary and are available for inspection by the Directors at all times. Each Director is entitled to seek independent professional advice in appropriate circumstances at the expense of the Company.

Directors may participate either in person or through electronic means of communications. Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. The Board held at least a board meeting for each quarter. Details of the attendance of the Directors during the year ended 31 December 2019 are as follows:

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established to ensure a balance of power and authority.

Mr. Cheng Dong serves as the chairman of the Board and is responsible for overall business development strategy and overall management and major business decisions of the Group. Mr. Jiang Guitang serves as the chief executive officer of the Company and is responsible for general management and day-to-day operation of the Group.

AUDIT COMMITTEE

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

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 2019 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 2019.

The audit committee held four meetings during the year ended 31 December 2019, at which the audited annual results of the Group for the year ended 31 December 2018, the unaudited quarterly and interim results of the Group for the year ended 31 December 2019 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 2019. Individual attendance of each committee member at the meetings during the year ended 31 December 2019 is as follows:

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

REMUNERATION COMMITTEE

The Company established a remuneration committee on 16 December 2016 with written terms of reference by reference to the code provisions of the CG Code. The remuneration committee comprises of three members, namely Mr. Jiang Guitang, an executive Director, Mr. Huang Xin and Mr. Tam Tak Kei Raymond, both being independent non-executive Directors. Mr. Tam Tak Kei Raymond currently serves as the chairman of the remuneration committee.

The primary duties of the remuneration committee are to make recommendations on the remuneration of the Directors and senior management to the Board and to review the overall remuneration policy and structure relating to the Directors and senior management. The terms of reference setting out the renumeration 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 2019, 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:

	Attendance
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 by reference to the code provisions of the CG Code. The nomination committee comprises of three members, namely Mr. Cheng Dong, an executive Director, Mr. Huang Xin and Mr. Ng Sai Leung, both being independent non-executive Directors. Mr. Huang Xin currently serves as the chairman of the nomination committee.

The primary duties of the nomination committee are to 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.

The members of the nomination committee should meet at least once a year. During the year ended 31 December 2019, 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:

	Attendance
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, being independent non-executive Director. Ms. Shi Dongying currently serves as the chairman of the risk management committee.

The primary duties of the risk management committee include, among others, monitoring the Group's exposure to sanction risks and export controls and the implementation of the related internal control procedures, and evaluate sanctions risks prior to determining whether any business opportunities should be embarked in any sanctioned countries and/or with any sanction persons. The 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 2019, the risk management committee held one meeting. Individual attendance of each committee member at the meeting is as follows:

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

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed KGI Capital Asia Limited as its compliance adviser (the "Compliance 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 12 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. The Company and the Compliance Adviser mutually agreed to terminate the Compliance Adviser agreement dated 14 March 2016 effective from 25 March 2020. For more information, please refer to the announcement of the Company dated 24 March 2020. The Company is searching for a replacement compliance adviser pursuant to Rule 6A.27 of the GEM Listing Rules and will make further announcement as soon as the replacement compliance advisor has been appointed. In any event, the appointment will be made within three months of the effective date of the aforesaid termination.

Except for the foregoing Compliance Adviser agreement, 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 2019, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on the consolidated financial statements and to report their opinion to the shareholders of the Company. The independent auditor's report about their reporting responsibility on the consolidated financial statements of the Group is set out in the independent auditor's report on pages 57 to 62 of this report.

AUDITORS' REMUNERATION

During the year, remuneration paid/payable to the auditor for audit services is approximately RMB787,000 (2018: RMB: 755,000).

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 during the year ended 31 December 2019 and 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 internal control include a defined management structure with limits of authority, which are designed to help 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.

Corporate Governance Report

An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been established. The division/department head of the Group is accountable for the conduct and performance of such segment within the agreed strategies, which are set by themselves and the Board together, and reports directly to the Board.

In the course of conducting the business of the Group, it is exposed to various types of risks, including business risks, financial risks, operation and other risks. The Board is ultimately responsible for the risk management of the Group and it has delegated to executive management to carry out the risk identification and monitoring procedures. The objectives of the risk management are to enhance the governance and corporate management processes as well as to safeguard the Group against unacceptable levels of risks and losses.

The risk management process of the Group will involve, among others, (i) an annual risk identification and analysis exercise which involves assessment of the consequence and likelihood of risks and the development of risk management plans for mitigating such risks; and (ii) an annual review of the implementation of the risk management plans and fine tuning of the implementation plan when necessary.

Although the Group does not maintain an internal audit function, the Board has overall responsibility for the system of internal control and for reviewing its effectiveness. Throughout the year ended 31 December 2019, the Group complied with the code provisions on internal control and risk management. In particular, the Group appointed an independent internal control consultant to carry out a review of the implemented systems and procedures, including areas covering financial, operational and legal compliance controls and risk management functions for the year ended 31 December 2019. The Directors were satisfied that the internal control systems as appropriate to the Group for the year ended 31 December 2019 were implemented properly and that no significant areas of weaknesses came into attention.

The Group complies with the requirements of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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, the Shareholders have the right to nominate a person to stand for election as a director at any general meeting by lodging a written notice to the Company.

In accordance with Provision E.1.2 of the CG Code, attendance of members of the Board to the AGM held on 31 May 2019 is as follows:

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

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING AND TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

The 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.

Corporate Governance Report

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 Central, Hong Kong
Tel:	2543 0633
Fax:	2543 9996
E-mail:	info@nantongrate.com.cn

Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board committees of the Company, where appropriate, to answer the Shareholders' questions.

COMMUNICATION WITH SHAREHOLDERS

On 13 January 2017, the Board adopted a shareholders' communication policy reflecting mostly the current practices of the Company for communication with 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.

Corporate Governance Report

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 2019.

Environmental, Social and Governance Report

A. ENVIRONMENTAL

A.1 Emissions

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.

Air emissions

During the year ended 31 December 2019, air emission for nitrogen oxides ("NOx"), sulphur oxides ("SOx") and respiratory suspended particles ("RSP", also known as Particulate Matter ("PM")) were about 964 g, 71 g and 165 g respectively, which were mainly produced from the company vehicles.

Carbon dioxide emissions

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 2019 are 30,405 kg, 1,461,842 kg and 10,694 kg respectively. The emission intensity is about 322kg per tonne of production.

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.

Emission of Volatile Organic Compounds ("VOCs")

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

- Maintain an active carbon absorption system in specific manufacturing processes to absorb the emission of VOCs;

- The manufacturing base has single-storey building with higher roof to increase the space for diluting the emission of VOCs into the air;

- Install a number of industrial fans in certain manufacturing processes to improve the air quality of the manufacturing base; and

- The major VOCs emission source of the Group comes from colouring process. Staff is not allowed to enter into the coating room during the natural drying procedure of colour coating to avoid excess inhalation of volatile gases.

Waste management

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

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

- Reduction of VOCs emissions through using low-styrene emissions resins;

- Efficient usage of raw materials monitoring;

- Repairing defective products rather than scrapping products. The Group has less than 0.3% scrapped products only; and

- Other basic household garbage was fully entrusted to the government to handle.

The non-hazardous waste produced in the year ended 31 December 2019 is as follows:

- Non-hazardous waste produced: 26 tonnes

- Non-hazardous waste produced intensity: 0.05 tonne per tonne of production

The Group has constantly kept up-to-date the local legislations and standards for environmental protection. In the year ended 31 December 2019, 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

Resources 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;

- 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 for packaging 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 2019:

		Consumption		**Consumption intensity (per tonne of production)**	
Resources	**Unit**	**2019**	2018	**2019**	2018
Electricity	kWh	**1,816,855**	1,404,695	**390.4**	332.1
Water	Tonne	**30,589**	26,918	**6.6**	6.4
Packaging materials	Tonne	**43.3**	50.8	**0.009**	0.01
Unleaded petrol	Litre	**11,228**	12,720	**2.4**	3.0

As a result of implementing measures to lower the consumption of natural resources, the consumption and intensity of consumption in packaging materials and unleaded petrol had been slightly dropped. The Group would review the current energy saving measures and adopt new measures if necessary.

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.

B. SOCIAL

B.1 Employment

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.

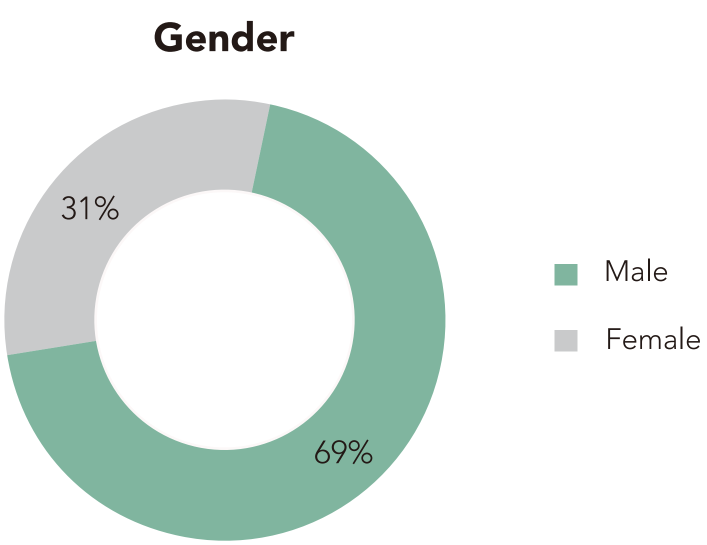
Employment contract specifies the terms including compensation and dismissal, working hours, rest periods and other benefits and welfare for staff. Staff handbook also highlights important information of policies on compensation, employee benefits, rights on termination, business conduct and leave benefits.

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 the employees.

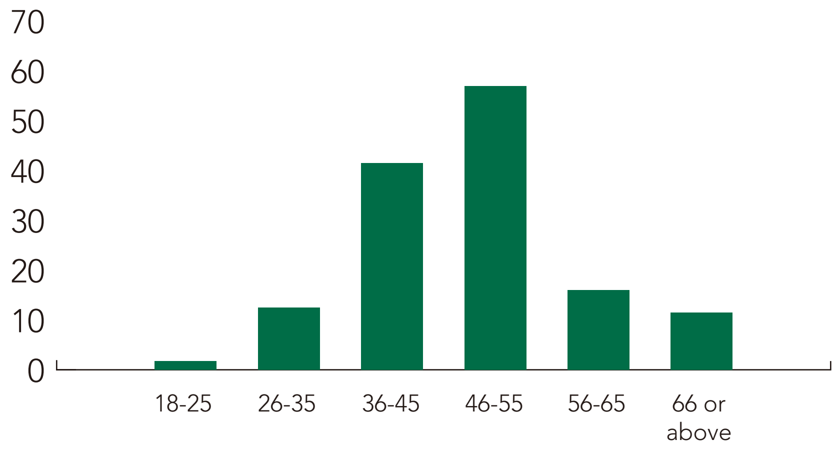
Anti-discrimination and equal opportunity

A good workplace practice attributes from being free from discrimination and equal opportunities for all despite of age, gender, race, colour, 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 2019.

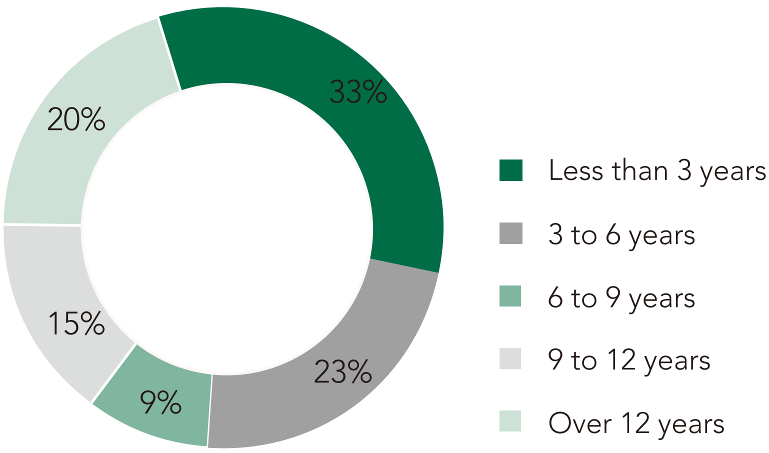
The charts below show the gender, age group and service period of staff:



By age group



Service period



For the year ended 31 December 2019, the Group employed about 143 (2018: 135) employees. The male/female composition ratio of the Group is approximately 2.2:1. 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.

The Group strives to maintain employee turnover rate at an acceptable level so as to facilitate accumulation of professional skills and experience. The turnover of staff is mainly due to the changes in the number of part-time workers in workshop, whom were hired for ad-hoc production projects. During the year 2019, the overall staff turnover rate is about 14 %, which is categorised by gender, service period and age group as follows:

Gender (%)		Service period (%)			
Male	Female	Less than 3 years	3 to 6 years	6 to 9 years	9 years or above
15	12	24	14	4	6

Age Group (%)					
18-25	26-35	36-45	46-55	56-65	66 or above
25	29	11	15	4	6

B.2 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 2019, the Group has reported zero work-related fatalities and work injuries.

B.3 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 access staff performance with their supervisors.

Particulars of training for directors and staff for the year ended 31 December 2019 are as follows:

	No. of staff attended	Percentage of staff attended
By Gender		
Male	79	80%
Female	28	64%

B.4 Labour Standards

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 2019, there was no labour dispute in the Group.

B.5 Supply Chain 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 city and province 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;
- 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

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 2019, 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

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 2019, the Group was not aware of any non-compliances of anti-corruption and money laundering.

B.8 Community Investment

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 2019.

CORPORATE REORGANISATION

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

The Shares were listed on GEM of the Stock Exchange on 13 January 2017 by way of placing.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the research and development, production and sales of FRP products in the PRC. The Company acts as an investment holding company. The principal business of the Group is carried out through Nantong Meigu Composite Materials Company Limited, which is an indirect wholly-owned subsidiary of the Company established in the PRC.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 63 of this annual report.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019 (2018: 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 66 of this annual report.

The Company's reserves available for distribution to the shareholders as at 31 December 2019 amounted to RMB42,681,000 (2018: RMB40,041,000).

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 144 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. Cheng Dong and Mr. Jiang Guitang will retire as Directors 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' 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 2019, 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 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"), which in turn beneficially owns 163,600,000 Shares (representing 40.90% of the total number of issued Shares). Therefore, Mr. Jiang is deemed, or taken to be, interested in all the Company's shares held by Singa for the purposes of the SFO.

2. Pursuant to the concert party deed (the "Concert Party Deed") entered into among Mr. Shen Weixing ("Mr. Shen"), Mr. Jiang, Munsing Developments Limited ("Munsing") and Singa dated 16 December 2016, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under The Codes on Takeovers and Mergers and Share Buy-backs (the "Takeovers Code")) since 1 January 2014, and that Mr. Shen, Mr. Jiang, Munsing and Singa are parties acting in concert until the date of any written termination by them. As such, Mr. Jiang, together with Mr. Shen, Munsing and Singa together held 40.9% of the total number of issued Shares as at 31 December 2019.

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

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

Save as disclosed above, as at 31 December 2019, 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.

DIRECTOR'S RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the Directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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

As at 31 December 2019, so far as is known to the Directors, the interests and short positions of the persons or corporations in the Shares or underlying Shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO or, were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are as follows:

Name	**Capacity/Nature of interest**	**Number of shares held/ interested in**	**Percentage of interest in the Company**
Mr. Shen *(Notes 1 and 2)*	Interest held jointly with other persons	163,600,000	40.9%
Munsing *(Notes 1 and 2)*	Interest held jointly with other persons	163,600,000	40.9%
Singa *(Notes 2 and 5)*	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 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 Takeovers Code) 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 held 40.9% of the total number of issued Shares as at 31 December 2019.

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.

5. On 3 January 2020, Singa (as vendor) entered into a share transfer agreement with Yunhong Group Co., Limited ("Yunhong") (as purchaser) to sell 40,000,000 Shares beneficially held by Singa (representing 10% of the total number of issued Shares) to Yunhong at a price of HK$0.16 per share, for a total consideration of HK$6,400,000 (the "Disposal"). As at the date of this report, the Disposal is not yet completed.

   On 5 January 2020, Singa entered into a memorandum of agreement with Yunhong (as potential purchaser) in relation to the possible sale and purchase of 123,600,000 Shares beneficially held by Singa (representing 30.9% of the total number of issued Shares) to Yunhong (the "Possible Transaction"), which if materialized, may lead to a change in control of the Company and a mandatory general offer under the Takeovers Code for all the issued Shares (other than those already owned by or agreed to be acquired by Yunlong or parties acting in concert with it). As at the date of this report, Singa and Yunhong have not entered into a formal agreement in relation to the Possible Transaction. Details about the Disposal and the Possible Transaction, are set out in the announcements of the Company dated 3 January 2020, 8 January 2020 and 22 January 2020, 6 February 2020, 4 March 2020, 3 April 2020 and 14 April 2020.

Save as disclosed above, as at 31 December 2019, 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 2019, 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 2019, sales to the Group's five largest customers accounted for 49.8% (2018: 43.0%) 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 13.4% (2018: 11.1%).

For the year ended 31 December 2019, purchases from the Group's five largest suppliers accounted for 54.7% (2018: 40.5%) 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 19.9% (2018: 20.2%).

None of the Directors, or any of their close associates or any other shareholders, which, to the best knowledge of the Directors, owns more than 5% of the total number of issued Shares, had any interest in the Group's five largest customers and suppliers during the year ended 31 December 2019.

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2019 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 2019.

COMPETING INTERESTS

The Directors confirm that none of the controlling shareholders, namely Mr. Shen, Mr. Jiang, Munsing and Singa (the "Controlling Shareholders"), the Directors and their respective close associates (as defined in the GEM Listing Rules) is interested in any business (apart from the business operated by the Group) which competes or is likely to compete, directly or indirectly, with the Group's business during the year ended 31 December 2019 and up to the date of this report.

DEED OF NON-COMPETITION

The Controlling Shareholders entered into a deed of non-competition (the "Deed of Non-competition") on 16 December 2016 in favour of the Company and its subsidiaries. Pursuant to the Deed of Non-competition, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of our subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its close associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group within the PRC, Hong Kong and such other parts of the world where any member of the Group may operate from time to time, or any business activity to be conducted by any member of the Group from time to time within the PRC, Hong Kong and such other parts of the world save for the holding of not more than 5% shareholding interests (individually or with his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Controlling Shareholders (individually or with his/its close associates).

Each of the Controlling Shareholders further undertakes that if he/it or his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with any business opportunity of the Group, he/it shall procure that his/its close associates to promptly notify the Group in writing and the Group shall have a right of first refusal to take up such opportunity. The Group shall, within 30 days after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Controlling Shareholder(s) whether the Group will exercise the right of first refusal.

The Group shall only exercise the right of first refusal upon the approval of all independent non-executive Directors who do not have any interest in such opportunity. The relevant Controlling Shareholder(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

During the year ended 31 December 2019, 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 2019.

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

During the year ended 31 December 2019, 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 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 18 of this annual report. These discussions form part of this report.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

(a) On 3 January 2020, Singa (as vendor) entered into a share transfer agreement with Yunhong Group Co., Limited ("Yunhong") (as purchaser) to sell 40,000,000 Shares beneficially held by Singa (representing 10% of the total number of issued Shares) to Yunhong at a price of HK$0.16 per share, for a total consideration of HK$6,400,000 (the "Disposal"). As at the date of this report, the Disposal is not yet completed.

On 5 January 2020, Singa entered into a memorandum of agreement with Yunhong (as potential purchaser) in relation to the possible sale and purchase of 123,600,000 Shares beneficially held by Singa (representing 30.9% of the total number of issued Shares) to Yunhong (the "Possible Transaction"), which if materialized, may lead to a change in control of the Company and a mandatory general offer under the Takeovers Code for all the issued Shares (other than those already owned by or agreed to be acquired by Yunlong or parties acting in concert with it). As at the date of this report, Singa and Yunhong have not entered into a formal agreement in relation to the Possible Transaction. Details about the Disposal and the Possible Transaction, are set out in the announcements of the Company dated 3 January 2020, 8 January 2020 and 22 January 2020, 6 February 2020, 4 March 2020, 3 April 2020 and 14 April 2020.

(b) The COVID-19 outbreak since the end of 2019 has brought about additional uncertainties to the Group's operating environment and may have impact on the Group's operating and financial position. The Group has been closely monitoring the impact from the COVID-19 epidemic on the Group's businesses and has commenced to put in place various measures.

As of the date of this annual report, the Directors consider that there is no material uncertainty as a result of COVID-19 outbreak that may cast a doubt on the Group's ability to carry on its business as a going concern in the next twelve months.

Save as disclosed above, there has been no other material event affecting the Group since the end of the reporting period.

CORPORATE GOVERNANCE

Information on the corporate government practices adopted by the Company is set out in the "Corporate Governance Report" on pages 24 to 37 of this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by the auditor of the Company, 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, 24 April 2020

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 63 to 143, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with the Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

The Key Audit Matter	How the matter was addressed in our audit
Impairment of contract assets and trade and bills receivables (Refer to notes 2(h)(i), 16, 17, 26(a) and 29(b)(i) to the consolidated financial statements.) At 31 December 2019, contract assets amounted to approximately RMB0.7 million, net of nil provision, and trade and bills receivables amounted to approximately RMB31.9 million, net of provision for impairment losses of approximately RMB2.3 million, for which there are no collateral 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 36.5% of its total contract assets and trade and bills receivables at 31 December 2019. This may give rise to the risk of bad debt losses arising from unfavourable changes in the customers' abilities to settle their trade debts after year end. Management's judgement and inherent estimation uncertainty are involved in determining the provision for contract assets, trade and bills receivables.	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: – 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; – reviewing historical settlement history of the customers and testing subsequent cash receipts from the customers after the year end; – assessing ageing analysis for contract assets and trade and bills receivables by customers and updated creditworthiness of the customers; – enquiring management of any material disputes with customers, assessing evaluating the implications arising from the discrepancies on the debtor confirmations directly obtained from the customers and reviewing correspondences with the customers for any material potential dispute; – 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 specific to the customers and the economic and market conditions; and – checking the accuracy of calculation of the required provision for the expected credit losses on contract assets and trade and bills receivables. 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.

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter	How the matter was addressed in our audit
Revenue recognition (Refer to notes 2(s), 3, 10, and 29(b)(v) to the consolidated financial statements) For the year ended 31 December 2019, revenue amounted to approximately RMB80 million. The Group is principally engaged in the research and development, production and sales of fiberglass reinforced plastic ("FRP") products in the PRC. In some of the terms of the sales contracts made between the Group and its customers, there are warranty clauses for the quality of the products, which were mainly related to agree-upon product function specifications, with expiry date falling within 1-2 years after the control of the products were transferred to the customers. Revenue is recognised when the control of the FRP products have been transferred to the customers at a point of time. The recognition of revenue involves significant judgement and estimates made by the management on the basis applied for measuring the value of work performed by the Group, using the output method. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	In response to this key audit matter, our audit work included controls testing and substantive procedures as follows: – evaluated and tested the design and operating effectiveness of controls over the capture and measurement of revenue transactions; – evaluated the appropriateness of the accounting policies on revenue recognition adopted by the Group and related accounting estimates and judgements made; and – performed substantive testing on the accuracy and occurrence of revenue using sampling techniques by examining, including to but not limited to, the terms of sales contracts, delivery notes, bills of lading, customer bills, billing reports, and financial records, as well as testing the cut-off for revenue recognised immediately before and after the reporting period end and obtaining written confirmation replies directly from the customers. We also assessed the Group's disclosures in respect of revenue in notes 3, 10 and 29(b)(v) to the consolidated financial statements.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we were required to report the fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intention omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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, 24 April 2020

Liu Mok Lan, Cliny
Practising Certificate Number P07270

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Revenue	3	**80,269**	74,584
Cost of sales		**(49,180)**	(50,923)
Gross profit		**31,089**	23,661
Other revenue	4	**271**	496
Other net gain	4	**310**	580
Impairment losses on trade and bills receivables	17(b)	**(1,052)**	(555)
Distribution costs		**(5,012)**	(5,614)
Administrative expenses		**(17,745)**	(13,497)
Profit from operations		**7,861**	5,071
Finance costs	5(a)	**(645)**	(1,073)
Profit before taxation	5	**7,216**	3,998
Income tax	6(a)	**(3,742)**	(2,528)
Profit for the year		**3,474**	1,470
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**3,474**	1,470
		RMB cents	RMB cents
Earnings per share			
Basic and diluted	9	**0.87**	0.37

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	11	**16,306**	17,093
Right-of-use asset	12	**1,398**	–
Leasehold land held for own use under operating lease	12	**–**	1,398
Deferred tax assets	22(b)	**793**	350
		18,497	18,841
Current assets			
Inventories	14	**5,946**	6,863
Property held for sale	15	**1,468**	1,468
Contract assets	16(a)	**650**	4,444
Trade and other receivables	17	**34,282**	49,444
Financial assets at fair value through other comprehensive income	19	**–**	5,000
Pledged bank deposits	13	**1,200**	50
Cash and cash equivalents	18(a)	**19,512**	6,170
		63,058	73,439
Current liabilities			
Trade and other payables	20	**16,540**	21,773
Contract liabilities	16(b)	**61**	93
Bank borrowings	21	**5,000**	15,000
Income tax payable	22(a)	**2,805**	2,980
		24,406	39,846
Net current assets		**38,652**	33,593
Total assets less current liabilities		**57,149**	52,434
Non-current liabilities			
Deferred tax liabilities	22(c)	**4,008**	3,167
NET ASSETS		**53,141**	49,267

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
CAPITAL AND RESERVES	25		
Share capital		**3,600**	3,600
Reserves		**49,541**	45,667
TOTAL EQUITY		**53,141**	49,267

Approved and authorised for issue by the board of directors of the Company on 24 April 2020.

On behalf of the board

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

The notes on pages 69 to 143 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

		Reserves						
	Share capital	Share premium	Capital reserve	Share-based payment services	Statutory reserve	Retained profits	Sub-total	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 25(a))	(note 25(b))	(note 25(c))	(note 25(d))	(note 25(e))			
At 1 January 2018	3,600	20,900	9,557	733	3,907	8,700	43,797	47,397
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)	–	–
At 31 December 2018	3,600	20,900	9,557	1,133	4,493	9,584	45,667	49,267
At 1 January 2019	**3,600**	**20,900**	**9,557**	**1,133**	**4,493**	**9,584**	**45,667**	**49,267**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**3,474**	**3,474**	**3,474**
Equity-settled share-based payments	**-**	**-**	**-**	**400**	**-**	**-**	**400**	**400**
Transfer to statutory reserve	**-**	**-**	**-**	**-**	**834**	**(834)**	**-**	**-**
At 31 December 2019	**3,600**	**20,900**	**9,557**	**1,533**	**5,327**	**12,224**	**49,541**	**53,141**

The notes on pages 69 to 143 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Operating activities			
Profit before taxation		**7,216**	3,998
Adjustments for:			
– Depreciation of property, plant and equipment	5(c)	**2,380**	1,918
– Amortisation for right-of-use asset/leasehold land	5(c)	**38**	38
– Impairment loss on trade and bills receivables	5(c)	**1,052**	555
– Write-down of inventories	5(c)	**827**	–
– Interest income	4	**(61)**	(49)
– Finance costs	5(a)	**645**	1,073
– Equity-settled share-based payment	5(b)	**400**	400
Operating cash flows before changes in working capital		**12,497**	7,933
Changes in working capital			
Decrease in inventories		**90**	1,474
Decrease/(increase) in trade, bills and other receivables		**14,072**	(9,145)
Decrease in contract assets		**3,794**	6,742
(Increase)/decrease in pledged bank deposits		**(1,150)**	1,009
(Decrease)/increase in trade, bills and other payables		**(5,233)**	3,950
Decrease in contract liabilities		**(32)**	(364)
Cash generated from operations		**24,038**	11,599
Income taxes paid		**(3,519)**	(1,267)
Net cash generated from operating activities		**20,519**	10,332
Investing activities			
Payments for the purchase of property, plant and equipment		**(1,593)**	(4,462)
Payment for the purchase of financial assets at fair value through other comprehensive income		**(10,000)**	(9,000)
Proceeds from the sales of financial assets at fair value through other comprehensive income		**15,000**	4,000
Interest received		**61**	49
Net cash generated from/(used in) investing activities		**3,468**	(9,413)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Financing activities			
Proceeds from new bank borrowings	18(b)	**5,000**	15,000
Repayment of bank borrowings	18(b)	**(15,000)**	(20,000)
Interest paid		**(645)**	(1,073)
Net cash used in financing activities		**(10,645)**	(6,073)
Net increase/(decrease) in cash and cash equivalents		**13,342**	(5,154)
Cash and cash equivalents at 1 January		**6,170**	11,324
Cash and cash equivalents at 31 December	18(a)	**19,512**	6,170

The notes on pages 69 to 143 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

MEIGU Technology Holding Group Limited (the "Company") was incorporated in the Cayman Islands on 13 January 2016 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares have been listed on GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 13 January 2017. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350 Grand Cayman KY1-1108, the 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2019 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies

The HKICPA has issued the following standards and amendments to HKFRSs that are first effective for the current accounting period of the Group：

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Payment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015-2017 Cycle	Cycle Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except as described below, the application of the new and amendments to HKFRSs and the interpretation in the current year have had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases*, and the related interpretations.

New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, there is no newly capitalised lease as the Group does not have material leases which were classified as operating leases at the date of initial application of HKFRS 16. The Group's leasehold land held for own use previously capitalised with carrying amount of RMB1,436,000 as at 1 January 2019, was reclassified as right-of-use asset upon the initial application of HKFRS 16.

Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

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.

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.

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets *(Continued)*

(i) As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(f) and 2(h)(ii)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value; and

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 2(i).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'right-of-use assets' and presents lease liabilities separately in the consolidated statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets *(Continued)*

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis; and

– land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 2(f). Impairment losses were accounted for in accordance with the accounting policy as set out in note 2(h)(ii). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets *(Continued)*

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019 (Continued)

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

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, pledged bank deposits and 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).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses from financial instruments and contract assets (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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses from financial instruments and contract assets (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 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses from financial instruments and contract assets (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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses from financial instruments and contract assets (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).

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Basis of calculation of interest income (Continued)

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.

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.

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;

– right-of-use assets; 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).

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.

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.

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 ("ECLs") 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.

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 expected credit losses (see note 2(h)(i)).

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 losses ("ECLs") 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.

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.

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.

When the benefits of a plan are changed, or when a plan is curtailed, current service cost for 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.

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)).

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 loses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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.

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.

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.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(h)(i)).

(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.

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.

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.

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.

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.

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.

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of fiberglass reinforced plastic products		
– fiberglass reinforced plastic grating	**52,982**	55,541
– phenolic grating	**2,094**	2,919
– composite subway evacuation platform	**–**	1,912
– epoxy wedge strip	**25,193**	12,749
– fiberglass reinforced plastic crossties	**–**	1,463
	80,269	74,584
Timing of revenue recognition		
A point in time	**80,269**	74,584

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

4. OTHER REVENUE AND OTHER NET INCOME

	2019 RMB'000	2018 RMB'000
Other revenue		
Interest income on bank deposits	**50**	21
Interest income on financial assets at fair value through other comprehensive income	**11**	28
Total interest income on financial assets not at fair value through profit or loss	**61**	49
Government grants and other subsidies (note below)	**187**	447
Others	**23**	–
	271	496
Other net gain		
Net foreign exchange gain	**310**	580
	310	580

Note:

Included in government grants and other subsidies for the year ended 31 December 2018 was RMB200,000 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.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following:

	2019 RMB'000	2018 RMB'000
(a) Finance costs		
Interest on bank borrowings	**645**	1,073
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**12,855**	11,603
Contributions to defined contribution retirement plans	**1,124**	1,160
Equity-settled share-based payments	**400**	400
	14,379	13,163
(c) Other items		
Amortisation for a right-of-use asset/ leasehold land (note 12)	**38**	38
Impairment losses on trade and bills receivables (note 17(b))	**1,052**	555
Depreciation of property, plant and equipment (note 11)	**2,380**	1,918
Write-down of inventories	**827**	–
Cost of inventories recognised as expense (note (i))	**53,694**	49,398
Auditor's remuneration:		
– auditor of the Company	**787**	755
– other auditors (note (ii))	**28**	28
Research and development costs (note (iii))	**7,780**	3,418

Notes:

(i) Cost of inventories recognised as expenses include RMB5,822,000 (2018: RMB5,899,000) relating to staff costs, RMB1,699,000 (2018: RMB1,204,000) relating to depreciation of property, plant and equipment, RMB5,782,000 (2018: RMB1,632,000) relating to research and development cost and RMB827,000 (2018: Nil) relating to write-down of inventories, for the year ended 31 December 2019, 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 RMB1,306,000 (2018: RMB1,040,000) and costs of materials consumed of RMB5,782,000 (2018: RMB1,632,000), the amounts of which are also included in the total amount separately disclosed for each of these types of expenses.

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

(a) Income tax recognised in profit or loss:

	2019 RMB'000	2018 RMB'000
Current tax		
The PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary		
– current year	**3,277**	1,877
– under/(over)-provision in prior years	**67**	(27)
	3,344	1,850
Deferred tax		
Origination and reversal of temporary differences in respect of		
– provision for impairment losses on trade and bills receivables (note 22(b))	**(237)**	40
– write-down of inventories (note 22(b))	**(206)**	–
– withholding tax on distributable profits of the Group's PRC subsidiary (note 22(c))	**841**	638
	398	678
	3,742	2,528

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 2019 and 2018, 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% (2018: 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%.

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:

	2019	2018
	RMB'000	RMB'000
Profit before taxation	**7,216**	3,998
Notional tax on profit before taxation attributable to the subsidiaries under the tax jurisdiction of the PRC calculated at 25%	**2,787**	1,850
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%	**(649)**	(296)
Under/(over)-provision in prior years	**67**	(27)
Tax effect of non-deductible expenses	**696**	363
Deferred tax provided for the PRC withholding tax on distributable profits of the Group's PRC subsidiary	**841**	638
Actual tax expense	**3,742**	2,528

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
2019						
Executive directors and chief executives						
Shen Qixian*#	–	144	–	–	–	144
Lin Guangquan*	–	–	–	–	–	–
Jiang Guitang*#	–	199	–	47	400	646
Cheng Dong#	–	407	–	25	–	432
Shi Dongying#	–	105	–	23	–	128
	–	855	–	95	400	1,350
Independent non-executive directors^						
Huang Xin	–	106	–	–	–	106
Tam Tak Kei Raymond	–	106	–	–	–	106
Ng Sai Leung	–	106	–	–	–	106
	–	318	–	–	–	318
Total	–	1,173	–	95	400	1,668

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

* 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.

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 (2018: Nil). None of the directors of the Company or the top five highest paid individuals (note 8 below) waived any emoluments during the year (2018: Nil).

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: two) are directors, Cheng Dong and Jiang Guitang, whose emoluments for the years ended 31 December 2019 and 2018 are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2018: three) individuals were as follows:

	2019 **RMB'000**	2018 RMB'000
Basic salaries, allowances and other benefits	**1,165**	943
Employer's contributions to defined contribution retirement schemes	**29**	39
	1,194	982

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

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for each of the years ended 31 December 2019 and 2018 is based on the following data:

	2019 RMB'000	2018 RMB'000
Earnings for the purpose of basic earnings per share		
Profit for the year attributable to the owners of the Company	**3,474**	1,470
	'000	'000
Number of shares		
Number of shares at the beginning and the end of the reporting period and the weighted average number of shares	**400,000**	400,000

Basic earnings per share for the year ended 31 December 2019 amounted to 0.87 RMB cent (2018: 0.37 RMB cent) per share.

No diluted earnings per share was presented as there was no potential ordinary shares outstanding during the years ended 31 December 2019 and 2018.

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.

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.

	2019 RMB'000	2018 RMB'000
Local customers		
The PRC (excluding Hong Kong) (place of domicile)	**41,472**	33,256
Foreign customers		
The United States of America	**17,994**	22,066
The United Kingdom	**13,889**	12,782
Belgium	**3,661**	2,301
France	**1,184**	697
Canada	**473**	329
Germany	**361**	20
Hong Kong	**355**	319
Denmark	**329**	–
Lithuania	**–**	569
South Korea	**–**	481
Uruguay	**9**	347
Kazakhstan	**–**	320
Australia	**–**	224
Others	**542**	873
	38,797	41,328
	80,269	74,584

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:

	2019 RMB'000	2018 RMB'000
Customer A (note)	**10,746**	–
Customer B	**10,006**	8,303

Note: Revenue from customer A did not contribute 10% or more of the total revenue from the Group during the year ended 31 December 2018.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Plant and equipment (including moulds)	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2018	14,106	450	14,702	785	30,043
Additions	1,363	–	3,099	–	4,462
At 31 December 2018	15,469	450	17,801	785	34,505
At 1 January 2019	**15,469**	**450**	**17,801**	**785**	**34,505**
Additions	**468**	**–**	**830**	**295**	**1,593**
At 31 December 2019	**15,937**	**450**	**18,631**	**1,080**	**36,098**
Accumulated depreciation:					
At 1 January 2018	5,406	401	9,089	598	15,494
Charge for the year	646	3	1,155	114	1,918
At 31 December 2018	6,052	404	10,244	712	17,412
At 1 January 2019	**6,052**	**404**	**10,244**	**712**	**17,412**
Charge for the year	**714**	**3**	**1,591**	**72**	**2,380**
At 31 December 2019	**6,766**	**407**	**11,835**	**784**	**19,792**
Carrying amounts:					
At 31 December 2019	**9,171**	**43**	**6,796**	**296**	**16,306**
At 31 December 2018	9,417	46	7,557	73	17,093

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 2019, the carrying amount of buildings pledged for bank borrowings (note 21) of the Group was RMB9,171,000 (2018: RMB9,417,000). Included in plant and equipment are moulds amounting to RMB1,871,000 (2018: RMB1,906,000), whose costs of RMB7,938,000 (2018: RMB7,653,000) 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. RIGHT-OF-USE ASSET/LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASE

	2019 RMB'000	2018 RMB'000
Cost		
At 1 January and 31 December	**1,890**	1,890
Accumulated amortisation		
At 1 January	**454**	416
Amortisation charged for the year	**38**	38
At 31 December	**492**	454
Carrying amount	**1,398**	1,436
Analysed for reporting purposes as:		
Leasehold land (current)	**–**	38
Leasehold land (non-current)	**–**	1,398
Right-of-use asset (non-current)	**1,398**	–
	1,398	1,436

The leasehold land is situated in the PRC and held under medium-term and there was no impairment on the leasehold land at the end of both reporting periods. The leasehold land was reclassified as a right-of-use asset upon the initial application of HKFRS 16 on 1 January 2019.

As at 31 December 2019, the carrying amount of leasehold land pledged for bank borrowings (note 21) of the Group was RMB1,398,000 (2018: RMB1,436,000).

13. PLEDGED BANK DEPOSITS

As at 31 December 2019, deposits of RMB1,200,000 (2018: RMB50,000) was placed in the accounts of a bank pledged in favour of banks for bills issuance (2018: for customers in relation to certain sales transactions). According to the relevant agreements, all the pledge will be released within 12 months (2018: 12 months) after the end of the reporting period, and accordingly, the amount was classified under current assets as at 31 December 2019 and 2018.

14. INVENTORIES

	2019	2018
	RMB'000	RMB'000
Raw materials	**2,346**	2,818
Work in progress	**1,735**	1,827
Finished goods	**1,865**	2,218
	5,946	6,863

15. PROPERTY HELD FOR SALE

	2019	2018
	RMB'000	RMB'000
Property held for sale at cost, in the PRC		
– amount of trade receivable settled in lieu of payment	**1,337**	1,337
– other incidental transaction costs	**131**	131
	1,468	1,468

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 RMB2,760,000 (2018: RMB2,800,000) as at 31 December 2019. 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 2019 (2018: Nil).

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

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

16. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 RMB'000	2018 RMB'000
Contract assets		
Retention monies receivables	**650**	4,444
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (note 17)	**31,917**	46,361

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 2019 and 2018, included in contract assets were retention monies receivable from the contract customers amounting to RMB650,000 and RMB4,444,000 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 the total consideration of the relevant contracts, that are retained by the contract customers as securities 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 end of each reporting period. The Group does not hold any collateral as security for the contract assets at the end of each reporting period.

At 31 December 2019 and 2018, no allowance for impairment loss on contract assets was made.

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

(b) Contract liabilities

	2019 **RMB'000**	2018 RMB'000
Contract liabilities		
Sales deposits received	**61**	93

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.

Movement in contract liabilities

	2019 **RMB'000**	2018 RMB'000
Balance at 1 January	**93**	457
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 year	**(93)**	(455)
Increase in contract liabilities as a result of receiving sales deposits during the year	**61**	91
Balance at 31 December	**61**	93

17. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**33,011**	36,594
Less: allowance for doubtful debts (note (i) below)	**(2,349)**	(1,396)
	30,662	35,198
Bills receivables (note (c) below)	**1,255**	11,163
Trade and bills receivables, net (notes (a) and (b))	**31,917**	46,361
Other receivables	**865**	968
Prepayments and deposits	**1,500**	2,077
Current portion of leasehold land held for own use under operating lease (note 12)	**–**	38
	34,282	49,444

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 repayable on demand.

Note:

(i) The Group determines the provision for impairment of trade and bills receivables on a forward looking basis and expected lifetime losses are recognised from initial recognition of the assets and remeasured at the end of each reporting period.

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.

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:

	2019	2018
	RMB'000	RMB'000
0 – 30 days	**11,660**	11,568
31 – 90 days	**11,624**	13,392
91 – 180 days	**3,428**	14,656
181 – 365 days	**4,285**	3,978
Over 365 days	**920**	2,767
	31,917	46,361

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

(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

	2019	2018
	RMB'000	RMB'000
At 1 January	**1,396**	1,563
Impairment loss recognised	**1,052**	555
Bad debt written off	**(99)**	(722)
At 31 December	**2,349**	1,396

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 2019, trade receivables amounting to RMB2,349,000 (2018: RMB1,396,000) were determined to be impaired according to the expected credit loss rates. Accordingly, allowance for doubtful debts of RMB1,052,000 (2018: RMB555,000) was recognised for the year ended 31 December 2019.

(c) As at 31 December 2019, bills receivables of Nil (2018: RMB6,800,000) were pledged to a bank in the PRC as securities for the issuance of bills by the Group (note 20).

(d) Further details in respect of credit risk from trade and bills receivables are disclosed in note 26(a).

18. CASH AND CASH EQUIVALENTS

	2019 **RMB'000**	2018 RMB'000
(a) Cash and cash equivalents comprise:		
Cash at bank	**19,509**	6,166
Cash on hand	**3**	4
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**19,512**	6,170

18. CASH AND CASH EQUIVALENTS *(Continued)*

(b) Reconciliation of liabilities arising from financing activities

	Bank borrowings RMB'000	Total liabilities from financing activities RMB'000
At 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 and 1 January 2019	**15,000**	**15,000**
Changes from financing cash flows		
– Proceeds from new bank borrowings	5,000	5,000
– Repayment of bank borrowings	(15,000)	(15,000)
At 31 December 2019	**5,000**	**5,000**

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Bank Wealth Management Products, at fair value	–	5,000

As at 31 December 2018, the amount represented investments in bank wealth management products issued by a bank with expected return ranging from 2.6% to 4% per annum and to be mature within one year after 31 December 2018. The carrying amount approximated the fair value. All these financial assets were acquired by the Group close to the year end of 2018 and the management considered that 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 prior reporting period.

20. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**9,213**	8,866
Bills payables	**1,100**	6,680
Total trade and bills payables	**10,313**	15,546
Other payables	**6,227**	6,227
	16,540	21,773

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

	2019 RMB'000	2018 RMB'000
0 – 30 days	**3,697**	4,265
31 – 90 days	**4,331**	3,826
91 – 180 days	**1,276**	3,848
Over 180 days	**1,009**	3,607
	10,313	15,546

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

21. BANK BORROWINGS

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

	2019 RMB'000	2018 RMB'000
Fixed rate term loans from banks due for repayment within 1 year or repayable on demand		
Secured bank borrowings (note below)	**5,000**	15,000

Note: As at 31 December 2019 and 2018, the bank borrowings were secured by buildings (note 11) and a right-of-use asset (2018: 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:

	2019 RMB'000	2018 RMB'000
Current year		
PRC EIT	**2,805**	2,980

(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:

	Temporary differences in respect of		
	write down of inventories RMB'000	provision for impairment losses on trade receivables RMB'000	Total RMB'000
At 1 January 2018	–	390	390
Charged to consolidated profit or loss (note 6(a))	–	(40)	(40)
At 31 December 2018 and 1 January 2019	–	350	350
Credited to consolidated profit or loss (note 6(a))	206	237	443
At 31 December 2019	**206**	**587**	**793**

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 statement of financial position and the movements during the year are as follows:

	Temporary differences in respect of distributable profits from the PRC subsidiary RMB'000
At 1 January 2018	2,529
Charged to consolidated profit or loss (note 6(a))	638
At 31 December 2018 and 1 January 2019	3,167
Charged to consolidated profit or loss (note 6(a))	841
At 31 December 2019	**4,008**

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 RMB841,000 (2018: RMB638,000) have been recognised for the year ended 31 December 2019, 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 was no significant unrecognised deferred tax assets or liabilities of the Group as at 31 December 2019 and 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 RMB1,124,000 (2018: RMB1,160,000) for year ended 31 December 2019, 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
Direct interests:				
Prosperous Composite Material Co., Ltd	The BVI/ 7 November 2006/ Limited liability company	Investment holding	US$100,000	100%
Indirect interests:				
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%
Disposed of during the year ended 31 December 2018:				
Treasure Route Group Limited#	The BVI/ 17 July 2017/Limited liability company	Investment holding	US$1	100%
Dragon Galaxy Holdings Limited#	Hong Kong/ 28 March 2017/ Limited liability company	Investment holding	HK$1	100%
美固新材料(南通)有限公司#	The PRC/ 20 December 2017/ Wholly foreign-owned enterprise	Research and development, production and sales of fiberglass reinforced plastic products in the PRC	US$3,800,000*	100%

* None of the capital was paid up to the date of cessation of being a subsidiary of the Group.

\# 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.

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

	2019		2018	
	Number of shares	**Share capital**	Number of shares	Share capital
Ordinary shares of HK$0.01 each				
		HK$'000		HK$'000
Authorised:				
At beginning and end of the year	**2,000,000,000**	**20,000**	2,000,000,000	20,000
		RMB'000		RMB'000
Issue and fully paid:				
At beginning and end of the year	**400,000,000**	**3,600**	400,000,000	3,600

25. CAPITAL AND RESERVES *(Continued)*

(a) Share capital *(Continued)*

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 the 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

The Group's capital reserve represented the Company's then beneficial owners' contributions for 85.37% of the registered capital of Nantong Meigu which has become an indirect and wholly-owned subsidiary of the Company since 16 March 2016.

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, the equity interest in the Group (comprising the Company, Prosperous Composite and Nantong Meigu) of a former substantial shareholder of the Company 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 ("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 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 2019 and 2018, 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's 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.

25. CAPITAL AND RESERVES *(Continued)*

(f) Distributability of reserves

At 31 December 2019, 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 RMB42,681,000 (2018: RMB40,041,000).

(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 2019 and 2018 were as follows:

	2019 **RMB'000**	2018 RMB'000
Total borrowings (note 21)	**5,000**	15,000
Less: Cash and cash equivalents (note 18(a))	**(19,512)**	(6,170)
Net (cash)/debt	**(14,512)**	8,830
Total equity attributable to owners of the Company	**53,141**	49,267
Total capital	**38,629**	58,097
Gearing ratio	**N/A**	15%

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 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 industries and countries in which customers operate also has an influence on credit risk.

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 2019, 11.7% and 36.5% (2018: 6.5% and 28.4%), 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 the end of each reporting period, 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 the end of each reporting period, 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 and bills receivables as at 31 December 2019 and 2018.

	As at 31 December 2019				
	Lifetime ECL	**Gross carrying amount**	**Lifetime ECL**	**Net carrying amount**	**Credit impaired**
	%	RMB'000	RMB'000	RMB'000	Yes/No
Not past due	0.12%	27,939	(34)	27,905	No
Past due					
Within 1 month	4.0%	1,279	(51)	1,228	No
1 to 3 months	6.0%	1,116	(68)	1,048	No
3 months to 1 year	19.0%	2,211	(421)	1,790	No
Over 1 year (Note)	18.0%	727	(131)	596	No
Credit impaired	100.0%	1,644	(1,644)	–	Yes
		34,916	(2,349)	32,567	
Represented by:					
Contract assets (note 16(a))		650	–	650	
Trade receivables (note 17)		33,011	(2,349)	30,662	
Bills receivables (note 17)		1,255	–	1,255	
		34,916	(2,349)	32,567	

Note: An amount of RMB596,000 which was past due over 1 year as at 31 December 2019, has been fully recovered subsequent to the end of the reporting period, and accordingly, no impairment loss is provided on this amount.

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

(a) Credit risk *(Continued)*

	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
Over 1 year	46.5%	540	(251)	289	No
Credit impaired	100.0%	567	(567)	–	Yes
		52,201	(1,396)	50,805	
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	
		52,201	(1,396)	50,805	

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.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to each entity's board approval. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient amount of cash to meet its liquidity requirements in the short and longer term.

The following tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay.

	Total contractual undiscounted cash flows within 1 year RMB'000	Carrying amounts RMB'000
As at 31 December 2019		
Trade and other payables	**16,540**	**16,540**
Bank borrowings	**5,138**	**5,000**
	21,678	**21,540**
As at 31 December 2018		
Trade and other payables	21,773	21,773
Bank borrowings	15,430	15,000
	37,203	36,773

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:

	2019		2018	
	Effective interest rates		Effective interest rates	
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings				
Bank borrowings	**5.00**	**5,000**	5.00	15,000

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.

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	
	2019	2018
	United States Dollars	United States Dollars
	RMB'000	RMB'000
Trade receivables	**11,947**	12,775
Cash and cash equivalents	**5,457**	189
Gross exposure arising from recognised assets and liabilities	**17,404**	12,964

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.

	2019		2018	
	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%**	**875**	5%	648
	(5%)	**(875)**	(5%)	(648)

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 2018.

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:

	2019	2018
	RMB'000	RMB'000
Short-term employee benefits	**2,427**	2,596
Post-employment benefits	**141**	172
Equity-settled share-based payments	**400**	400
	2,968	3,168

28. CAPITAL AND LEASE COMMITMENTS

As at 31 December 2019 and 2018, 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.

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.

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 2019 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 2019 and no write-off for the property held for sale was considered necessary at 31 December 2019. 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) Product warranty clause

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 one to two years after the control of the products were transferred to the customers. 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.

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	2019 RMB'000	2018 RMB'000
Non-current assets			
Investment in subsidiaries	30(a)	**29,903**	29,903
Current assets			
Prepayments		**–**	88
Amount due from a subsidiary	30(b)	**8,037**	9,816
Cash and cash equivalent		**2**	1,463
		8,039	11,367
Current liabilities			
Other payables		**(1,683)**	(1,497)
Amount due to a subsidiary	30(c)	**(7,198)**	(7,198)
		(8,881)	(8,695)
Net current (liabilities)/assets		**(842)**	2,672
TOTAL ASSETS LESS TOTAL LIABILITIES		**29,061**	32,575
EQUITY			
Equity attributable to owners of the Company			
Share capital	25(a)	**3,600**	3,600
Reserve	30(d)	**25,461**	28,975
TOTAL EQUITY		**29,061**	32,575

Notes:

(a) Investment in subsidiaries

	2019 RMB'000	2018 RMB'000
Investment in Prosperous Composite	**29,903**	29,903

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

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

Notes: *(Continued)*

(b) Amount due from a subsidiary

	2019 **RMB'000**	2018 RMB'000
Amount due from Prosperous Composite	**8,037**	9,816

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

(c) Amount due to a subsidiary

	2019 **RMB'000**	2018 RMB'000
Amount due to Nantong Meigu	**7,198**	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:

	Share premium (note 25(b)) RMB'000	**Capital reserve** (note 25(c)) RMB'000	**Share-based payment reserve** (note 25(d)) RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
As at 1 January 2018	20,900	29,903	733	(19,166)	32,370
Loss and total comprehensive loss for the year	–	–	–	(3,795)	(3,795)
Equity-settled share-based payments	–	–	400	–	400
As at 31 December 2018 and 1 January 2019	**20,900**	**29,903**	**1,133**	**(22,961)**	**28,975**
Loss and total comprehensive loss for the year	–	–	–	(3,914)	(3,914)
Equity-settled share-based payments	–	–	400	–	400
As at 31 December 2019	**20,900**	**29,903**	**1,533**	**(26,875)**	**25,461**

31. POSSIBLE IMPACT OF AMENDMENTS AND A NEW STANDARD ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these consolidated financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

32. MATERIAL EVENTS AFTER THE REPORTING PERIOD

(a) On 3 January 2020, Singa (as vendor) entered into a share transfer agreement with Yunhong Group Co., Limited ("Yunhong") (as purchaser) to sell 40,000,000 Shares beneficially held by Singa (representing 10% of the total number of issued Shares) to Yunhong at a price of HK$0.16 per share, for a total consideration of HK$6,400,000 (the "Disposal"). As at the date of this report, the Disposal is not yet completed.

On 5 January 2020, Singa entered into a memorandum of agreement with Yunhong (as potential purchaser) in relation to the possible sale and purchase of 123,600,000 Shares beneficially held by Singa (representing 30.9% of the total number of issued Shares) to Yunhong (the "Possible Transaction"), which if materialized, may lead to a change in control of the Company and a mandatory general offer under the Code on Takeovers and Mergers issued by the Securities and Futures Commission for all the issued Shares (other than those already owned by or agreed to be acquired by Yunlong or parties acting in concert with it). As at the date of this report, Singa and Yunhong have not entered into a formal agreement in relation to the Possible Transaction.

32. MATERIAL EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(b) The COVID-19 outbreak since the end of 2019 has brought about additional uncertainties to the Group's operating environment and may have impact on the Group's operating and financial position. The Group has been closely monitoring the impact from the COVID-19 epidemic on the Group's businesses and has commenced to put in place various measures.

As of the date of approval of the consolidated financial statements, the directors of the Company consider that there is no material uncertainty as a result of COVID-19 outbreak that may cast a doubt on the Group's ability to carry on its business as a going concern in the next twelve months.

Save as disclosed above, there has been no other material event affecting the Group since the end of the reporting period.

33. COMPARATIVE INFORMATION

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

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors of the Company on 24 April 2020.

Financial Summary

	For the year ended 31 December				
	2015 RMB'000 (restated)	2016 RMB'000 (restated)	2017 RMB'000 (restated)	2018 RMB'000 (restated)	**2019** **RMB'000**
Results					
Revenue	56,405	63,278	68,188	74,584	**80,269**
Cost of sales	(35,141)	(38,942)	(43,594)	(50,923)	**(49,180)**
Gross profit	21,264	24,336	24,594	23,661	**31,089**
Other revenue	1,096	112	1,918	496	**271**
Other net income/(loss)	657	604	(916)	580	**310**
Reversal of impairment losses/(impairment losses) on trade and bills receivables	(770)	436	(118)	(555)	**(1,052)**
Selling and distribution costs	(6,376)	(5,667)	(6,661)	(5,614)	**(5,012)**
Listing expenses	–	(14,382)	(1,343)	–	**–**
Administrative expenses	(5,337)	(8,123)	(12,409)	(13,497)	**(17,745)**
Profit/(loss) from operations	10,354	(2,684)	5,065	5,071	**7,861**
Finance cots	(2,447)	(1,127)	(1,122)	(1,073)	**(645)**
Profit/(loss) before taxation	8,087	(3,811)	3,943	3,998	**7,216**
Income tax	(2,762)	(3,887)	(3,260)	(2,528)	**(3,742)**
Profit/(loss) and total comprehensive income/(loss) for the year	5,325	(7,698)	683	1,470	**3,474**
Profit/(loss) for the year attributable to :					
Owners of the Company	4,380	(7,771)	683	1,470	**3,474**
Non-controlling interest	945	73	–	–	**–**
	5,325	(7,698)	683	1,470	**3,474**

	As at 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Total assets	69,188	69,967	90,603	92,280	**81,555**
Total liabilities	(35,567)	(48,153)	(43,206)	(43,013)	**(28,414)**
	33,621	21,814	47,397	49,267	**53,141**