



2018

THIRD QUARTERLY
REPORT



MEIGU Technology Holding Group Limited

美固科技控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8349



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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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 Holdings Group Limited (the “Company”) collectively and individually accepts full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

RESULTS

The Board is pleased to report the unaudited results of the Company and its subsidiaries (the “Group”) for the nine months ended 30 September 2018, together with the comparative unaudited figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	4	18,326	18,262	50,821	49,357
Cost of sales		(12,370)	(10,510)	(34,810)	(30,532)
Gross profit		5,956	7,752	16,011	18,825
Other revenue	5	128	1,754	420	1,871
Other net income	5	596	–	596	–
Selling and distribution costs		(1,706)	(1,319)	(5,795)	(4,546)
Administrative expenses		(3,127)	(3,635)	(9,114)	(10,394)
Profit from operations		1,847	4,552	2,118	5,756
Finance costs	6 (a)	(239)	(290)	(846)	(815)
Profit before taxation	6	1,608	4,262	1,272	4,941
Income tax	7	(551)	(1,520)	(1,041)	(2,670)
Profit for the period		1,057	2,742	231	2,271
Other comprehensive income for the period		–	–	–	–
Total comprehensive income for the period attributable to owners of the Company		1,057	2,742	231	2,271
Earnings per share		RMB cent	RMB cent	RMB cent	RMB cent
Basic and diluted	9	0.26	0.69	0.06	0.57

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital Reserve RMB'000	Share-based payment reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	
At 1 January 2017 (Audited)	-	-	9,557	333	3,258	8,666	21,814
Profit and total comprehensive income for the period	-	-	-	-	-	2,271	2,271
Placing of shares	886	30,136	-	-	-	-	31,022
Issuance of shares by capitalisation	2,714	(2,714)	-	-	-	-	-
Transaction costs for placing and capitalization issue of shares	-	(6,522)	-	-	-	-	(6,522)
Equity-settled share-based payments	-	-	-	300	-	-	300
Transfer to statutory reserve	-	-	-	-	474	(474)	-
At 30 September 2017	<u>3,600</u>	<u>20,900</u>	<u>9,557</u>	<u>633</u>	<u>3,732</u>	<u>10,463</u>	<u>48,885</u>
At 1 January 2018 (Audited)	3,600	20,900	9,557	733	3,907	8,700	47,397
Profit and total comprehensive income for the period	-	-	-	-	-	231	231
Equity-settled share-based payments	-	-	-	300	-	-	300
Transfer to statutory reserve	-	-	-	-	209	(209)	-
At 30 September 2018	<u>3,600</u>	<u>20,900</u>	<u>9,557</u>	<u>1,033</u>	<u>4,116</u>	<u>8,722</u>	<u>47,928</u>

Notes:

1. GENERAL INFORMATION

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

The Company is an investment holding company and its subsidiaries are principally engaged in the research and development, production and sales of fiberglass 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. BASIS OF PRESENTATION

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

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

The unaudited condensed consolidated results of the Group have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations".

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

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

4. REVENUE

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

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Sales of fiberglass reinforced plastic				
– fiberglass reinforced plastic ("FRP") grating	13,784	11,092	37,497	31,027
– United States Coast Guard ("USCG") approved phenolic grating	781	2,282	2,405	7,095
– FRP subway evacuation platform	–	–	1,911	1,713
– epoxy wedge strip	3,761	2,447	7,811	7,081
– FRP crossties	–	2,441	1,197	2,441
	18,326	18,262	50,821	49,357

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

5. OTHER REVENUE AND OTHER NET INCOME

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Other revenue				
Interest income on bank deposits	3	7	17	12
Government subsidies	125	1,747	402	1,787
Sundry income	-	-	1	72
	<u>128</u>	<u>1,754</u>	<u>420</u>	<u>1,871</u>
Other net income				
Net foreign exchange gain	<u>596</u>	-	<u>596</u>	-

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following items:

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
(a) Finance costs				
Interest on bank borrowings	239	290	846	815
(b) Staff costs (including directors' emoluments)				
Salaries, wages and other benefits	2,897	2,705	8,979	7,625
Contributions to defined contribution retirement plans	281	253	797	804
Equity-settled share-based payments	100	100	300	300
	<u>3,278</u>	<u>3,058</u>	<u>10,076</u>	<u>8,729</u>
(c) Other items				
Amortisation of prepaid lease payments	9	9	28	28
Depreciation for property, plant and equipment	490	450	1,419	1,319
Cost of inventories recognised as expense (note (i))	11,574	10,510	34,014	30,533
Research and development costs (note (ii))	1,586	1,239	2,678	2,174
	<u>11,589</u>	<u>12,208</u>	<u>36,739</u>	<u>32,954</u>

Notes:

- (i) Cost of inventories recognised as expenses include RMB5,450,000 (nine months ended 30 September 2017: RMB4,454,000) relating to staff costs, and RMB885,000 (nine months ended 30 September 2017: RMB754,000) relating to depreciation for property, plant and equipment, the amounts of which are also included in the total amount disclosed separately above for each of these types of expenses.
- (ii) Included in the research and development costs are staff cost of RMB625,000 (nine months ended 30 September 2017: RMB687,000) the amount of which is also included in the total amount separately disclosed for this type of expense.

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Current tax				
PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary	355	1,209	758	1,953
Deferred tax				
Origination and reversal of temporary differences in respect of withholding tax on distributable profits of the Group's PRC subsidiary	196	311	283	717
	<u>551</u>	<u>1,520</u>	<u>1,041</u>	<u>2,670</u>

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.

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

8. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: nil).

9. EARNINGS PER SHARE

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Profit attributable to owners of Company for the purpose of calculating basic earnings per share (RMB'000)	1,057	2,742	231	2,271
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share ('000)	400,000	400,000	400,000	395,956

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

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

10. MATERIAL RELATED PARTY TRANSACTIONS

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB\$'000 (Unaudited)	2017 RMB\$'000 (Unaudited)
Short-term employee benefits	296	1,278	878	1,831
Post-employment benefits	44	49	124	129
Equity-settled share-based payments	100	100	300	300
	440	1,427	1,302	2,260

MANAGEMENT DISCUSSION AND ANALYSIS

Review and prospect

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

FRP Crosstie products were developed in line with the PRC's policies in promoting "Belt and Road Initiatives". It is intended to apply as the replacement of wooden crossties for the railway sector. The target customers of such products are (i) PRC railway corporations; and (ii) corporations which participate in the construction of national railway bridges. The FRP crosstie products were rolled for commercial production in August 2017. FRP crossties generated approximately RMB1.2 million of revenue to the Group which accounted for approximately 2.4% of the Group's total sales for the nine months ended 30 September 2018. The gross profit margin generated from this product category was approximately 22.5% over the same period. FRP crossties is expected to maintain considerable growth in market demand and to become a significant revenue driver to the Group in future.

In view of the slowdown of macro-economic conditions in the PRC and the intensifying trade war between the PRC and the United States of America (“US”), capital investment in infrastructure projects by countries along the “Belt and Road Initiative”, in particular the investment in transport infrastructure in central and eastern Europe and Asia, would be slowing down, which would exert an adverse impact on the growth in the FRP market in China. The management, therefore, adjusted the expected CAGR from 8.0% to 5.0% for the next three years (i.e. from 2018 to 2020). In future years, the Group will participate proactively in tender bidding for all potential projects with open arms so as to exercise more effective cost control and strengthen the competitiveness of the Group. Meanwhile, the Group will recruit more talents to fulfill its development needs to support and expand its business.

Financial Review

The Group posted a consolidated revenue of approximately RMB50.8 million for the nine months ended 30 September 2018, representing an increase of approximately RMB1.4 million or 3.0% as compared to the corresponding period in 2017. The increase in revenue was primarily driven by the increase in sales revenue generated from sales of FRP grating products, FRP subway evacuation platform products and epoxy wedge strip products, which was offset by a decrease in sales of USCG approved phenolic grating products and FRP crosstie products.

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

	For the nine months ended 30 September 2018		For the nine months ended 30 September 2017	
	Sales revenue RMB'000	Gross profit margin %	Sales revenue RMB'000	Gross profit margin %
FRP grating products	37,497	32.0	31,027	37.1
USCG approved phenolic grating products	2,405	45.4	7,095	42.7
FRP subway evacuation platform products	1,911	15.4	1,713	28.8
Epoxy wedge strip products	7,811	29.9	7,081	40.5
FRP crosstie products	1,197	22.5	2,441	37.3
	50,821	31.5	49,357	38.1



During the nine months ended 30 September 2018, sales of FRP grating products remained the largest contributor to the Group's revenue and it accounted for approximately 73.8% of the total revenue. The percentage of contribution has increased from 62.9% for the nine months ended 30 September 2017. FRP grating products were mainly sold to corporate customers in the PRC who generally are end-users of such products, as well as distributors in the US and the United Kingdom ("UK") who generally buy the products on per purchase order basis with no distribution arrangement. Revenue derived from sales of FRP grating products increased by 20.9% from approximately RMB31.0 million for the nine months ended 30 September 2017 to approximately RMB37.5 million for the nine months ended 30 September 2018. This is mainly due to the increase in sales in the US and UK markets. The gross profit margin decreased by approximately 5.1% from 37.1% to 32.0%, which was mainly due to the increase in costs of raw materials.

USCG approved phenolic grating products were generally sold to shipbuilders and offshore oilfields construction companies in the PRC. Revenue generated from sales of USCG approved phenolic grating products has decreased by 66.1% from approximately RMB7.1 million for the nine months ended 30 September 2017 to approximately RMB2.4 million for the nine months ended 30 September 2018. The sharp reduction was due to the downturn in the shipbuilding industry in China and nearby surrounding countries, which caused the customers to be more conservative on placing new orders. The gross profit margin increased by 2.7% from 42.7% for the nine months ended 30 September 2017 to 45.4% for the nine months ended 30 September 2018. This was mainly due to the increased level of complexity in the cutting technique which allowed an increase in the average selling price of this product category with no noticeable increase in cost of production.



FRP subway evacuation platform products were sold to main contractors who are principally engaged in railway construction works in the PRC. Revenue generated from sales of FRP subway evacuation platform products increased by approximately 11.6% from approximately RMB1.7 million for the nine months ended 30 September 2017 to approximately RMB1.9 million for the nine months ended 30 September 2018. The increase in sales was due to the fact that a major project was only introduced in the first half year of 2017 and as such a lower sales revenue was recognised in the nine months ended 30 September 2017 in comparison with the corresponding period in 2018. The gross profit margin reduced by approximately 13.4% from approximately 28.8% for the nine months ended 30 September 2017 to approximately 15.4% for the nine months ended 30 September 2018. Due to the orders received to supplement the previous finished orders, the production line, which was temporarily halted, was not running efficiently on resumption of production. This caused a relatively lower gross profit margin in comparison with that achieved in corresponding nine months in 2017.

Epoxy wedge strip products were developed and targeted for manufacturers of wind turbine blades in the PRC. The revenue derived from sales of epoxy wedge strip products increased by approximately RMB730,000 or 10.3% from approximately RMB7.1 million for the nine months ended 30 September 2017 to approximately RMB7.8 million for the nine months ended 30 September 2018. This was mainly due to the acquisition of a new customer and the resumption of confidence from the existing customers on the wind turbine manufacturing industry regardless of the imposition of controlling measures by the government. The gross profit margin reduced by approximately 10.6% from approximately 40.5% for the nine months ended 30 September 2017 to approximately 29.9% for the nine months ended 30 September 2018. The reduction in gross profit margin can be explained by the differences in product specifications in relation to different shapes, weight and dimension for the products sold in the two periods.

Revenue generated from the sales of FRP crosstie products for the nine months ended 30 September 2018 amounted to approximately RMB1.2 million which fetched a gross profit margin of 22.5%. In comparison with the nine months ended 30 September 2017, sales revenue decreased by 51.0% whereas the gross profit margin reduced by 14.8%. The reduction in sales revenue was mainly attributable to the postponement of delivery of the finished products as requested by the customer. On the other hand, increase in cost of raw materials has resulted in shrinkage of the gross profit margin.

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

	For the nine months ended 30 September 2018		For the nine months ended 30 September 2017	
	Average selling price per unit RMB	Volume	Average selling price per unit RMB	Volume
FRP grating products	274.7	136,506 m²	270.6	114,652 m ²
USCG approved phenolic grating products	626.1	3,840 m²	580.8	12,215 m ²
FRP subway evacuation platform products	349.6	5,468 m²	349.6	4,900 m ²
Epoxy wedge strip products	45.1	173,321 m	49.9	141,712 m
FRP crosstie products	17,777.8	68 m³	16,276.9	150 m ³

The average selling price of the FRP grating products per m² slightly increased by approximately 1.5% from RMB270.6 per m² for the nine months ended 30 September 2017 to RMB274.7 per m² for the nine months ended 30 September 2018, with an increase in sales volume of approximately 19.1% in comparison between the two periods. The slight increase in average selling price was mainly due to the recovery of certain cost increments in raw materials from the customers.

The average selling price of the USCG approved phenolic grating products per m² increased by approximately 7.8% from RMB580.8 per m² for the nine months ended 30 September 2017 to RMB626.1 per m² for the nine months ended 30 September 2018, with a reduction in sales volume of approximately 68.6% on comparison between the two periods. The increase in average selling price was mainly due to the increased level of complexity in the cutting technique which allowed an increase in the average selling price of this product category.

The average selling price of the FRP subway evacuation platform products per m² remained unchanged, with an increase in sales volume of approximately 11.6% in comparison between the two periods.

The average selling price of the epoxy wedge strip products per metre decreased by approximately 9.6% from RMB49.9 per metre for the nine months ended 30 September 2017 to RMB45.1 per metre for the nine months ended 30 September 2018, with an increase in sales volume of approximately 22.3% in comparison between the two periods. The decrease in average selling price was mainly due to the substantial increase in sale of product items with different shapes, weight and dimensions which procured lower average selling price.

The average selling price of the FRP crosstie products per m³ increased by approximately 9.2% from RMB16,276.9 per m³ for the nine months ended 30 September 2017 to RMB17,777.8 per m³ for the nine months ended 30 September 2018, with a reduction in sales volume of approximately 54.7% in comparison between the two periods. The increase in average selling price was largely attributable to the recovery of certain cost increments in raw materials from the customer.

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

	For the nine months ended 30 September	
	2018	2017
	RMB'000	RMB'000
PRC	24,202	29,183
US	14,022	8,614
UK	9,429	6,794
Others	3,168	4,766
	<hr/>	<hr/>
Total	50,821	49,357
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Sales to the PRC market decreased by approximately 17.1% from approximately RMB29.2 million for the nine months ended 30 September 2017 to approximately RMB24.2 million for the nine months ended 30 September 2018. This is because of the allocation of production capacity to more urgent orders from overseas and the reduction in sales of the USCG approved phenolic grating products during the nine months ended 30 September 2018.



Sales to the US market increased by approximately 62.8% from approximately RMB8.6 million for the nine months ended 30 September 2017 to approximately RMB14.0 million for the nine months ended 30 September 2018, mainly because of the increase in sales orders from the major customers and acquisition of new customers in the US market.

Sales to the UK market increased by approximately 38.8% from approximately RMB6.8 million for the nine months ended 30 September 2017 to approximately RMB9.4 million for the nine months ended 30 September 2018, mainly because of the increase in sales orders from the major customers and acquisition of new customers in the UK market.

Sales to the other locations decreased by approximately 33.5% from approximately RMB4.8 million for the nine months ended 30 September 2017 to approximately RMB3.2 million for the nine months ended 30 September 2018, mainly because of lesser sales orders received from other locations whilst the Group focused on the US and UK markets, the sales to which accounted for approximately 46.1% of the total sales of the Group for the nine months ended 30 September 2018.

Operating costs and expenses

The selling and distribution costs increased by approximately RMB1.2 million or 27.5% to approximately RMB5.8 million for the nine months ended 30 September 2018 from approximately RMB4.5 million for the nine months ended 30 September 2017. The increase was mainly attributed to the uplift of advertising expenses and transportation costs resulting from the surge of overseas sales during the nine months ended 30 September 2018.

The administrative expenses decreased by approximately RMB1.3 million, or 12.3% to approximately RMB9.1 million for the nine months ended 30 September 2018 from approximately RMB10.4 million for the nine months ended 30 September 2017. The decrease was mainly due to the conscientious effort taken by the management in controlling the administrative expenses of the Group.

Finance costs increased by approximately RMB31,000 to approximately RMB846,000 for the nine months ended 30 September 2018 from approximately RMB815,000 for the nine months ended 30 September 2017. The increase was mainly due to the augment of interest expenses charged by financial institutions during the nine months ended 30 September 2018.

Operating results

Net profit for the period decreased by approximately RMB2.0 million to approximately RMB231,000 for the nine months ended 30 September 2018 from approximately RMB2.3 million for the nine months ended 30 September 2017. This was mainly attributable to the reduction in the gross profit margin of the Group for the nine months ended 30 September 2018.

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

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

(i) Long position in the Shares

Name	Capacity/Nature of interest	Number of shares held/ interested in	Percentage of interest in the Company
Mr. Jiang Guitang ("Mr. Jiang") (Notes 1 and 2)	Interest held jointly with other persons; interest in a controlled corporation	282,000,000	70.5%

Notes:

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

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

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

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

DIRECTOR’S RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the nine months ended 30 September 2018 was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares 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 nine months ended 30 September 2018.

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

As at 30 September 2018, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interest or short position in Shares or underlying Shares of the Company which have been disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 336 of the SFO or, were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are as follows:

Name	Capacity/Nature of interest	Number of shares held/interested in	Percentage of interest in the Company
Mr. Shen (<i>Notes 1 and 2</i>)	Interest held jointly with other persons; interest in a controlled corporation	282,000,000 (<i>Note 5</i>)	70.5%
Muning (<i>Notes 1 and 2</i>)	Interest held jointly with other persons; beneficial owner	282,000,000 (<i>Note 5</i>)	70.5%
Singa (<i>Note 2</i>)	Interest held jointly with other persons; beneficial owner	282,000,000 (<i>Note 5</i>)	70.5%
Ms. Gong Hui (<i>Note 3</i>)	Interest of spouse	282,000,000 (<i>Note 5</i>)	70.5%
Ms. Chen Lijuan (<i>Note 4</i>)	Interest of spouse	282,000,000 (<i>Note 5</i>)	70.5%

Notes:

1. Mr. Shen beneficially owns 100% of the entire issued share capital of Muning. Therefore, Mr. Shen is deemed, or taken to be, interested in all the Shares held by Muning for the purposes of the SFO.

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2. Pursuant to the Concert Party Deed, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Buy-backs) since 1 January 2014, and that Mr. Shen, Munsing, Singa and Mr. Jiang are parties acting in concert until the date of any written termination by them, As such, Mr. Shen, Munsing, Singa and Mr. Jiang together controlled 70.5% of the entire share capital of the Company as at 30 September 2018.
 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 30 August 2018, the Company announced that notification was received from Munsing that on 27 August 2018, Munsing (as vendor) and Mr. Shen (as warrantor) entered into a share transfer agreement with an independent third party (the "Purchaser") to sell 118,400,000 Shares (the "Sale Shares") beneficially held by Munsing to the Purchaser for a consideration of HK\$47,703,360. Immediately before the completion of disposal of the Sales Shares, Munsing beneficially owns 118,400,000 Shares, representing 29.6% of the issued share capital of the Company. Disposal of the Sale Shares has not yet been completed as at 30 September 2018.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the nine months ended 30 September 2018, the Group did not enter into any transactions which need to be disclosed as connected transactions or continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules.

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



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

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

COMPETING INTERESTS

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

INTEREST OF COMPLIANCE ADVISER

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

CORPORATE GOVERNANCE CODE

The Directors consider that the Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules during the nine months ended 30 September 2018.

AUDIT COMMITTEE

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

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

By order of the Board

MEIGU Technology Holding Group Limited

Jiang Guitang

Executive Director

Hong Kong, 9 November 2018

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

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