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SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8377)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 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 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 announcement, for which the directors (the “**Directors**”) of Shen You Holdings 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 announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

ANNUAL RESULTS

The board of Directors (the “**Board**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018, which are presented in Hong Kong dollars (“**HK\$**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
REVENUE	4	58,746	64,510
Cost of sales		<u>(47,416)</u>	<u>(51,232)</u>
Gross profit		11,330	13,278
Other income and gains	4	2,039	2,037
Selling and distribution expenses		(7,393)	(7,579)
Administrative expenses		(13,508)	(16,456)
Impairment losses on financial assets, net		(3,103)	(499)
Other expenses		(4,709)	(2,301)
Finance costs		<u>(1,313)</u>	<u>(886)</u>
LOSS BEFORE TAX	5	(16,657)	(12,406)
Income tax (expense)/credit	6	<u>(2,562)</u>	<u>1,551</u>
LOSS FOR THE YEAR		<u>(19,219)</u>	<u>(10,855)</u>
ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>(19,219)</u>	<u>(10,855)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted (expressed in HK cents per share)		<u>(2.40)</u>	<u>(1.36)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(19,219)</u>	<u>(10,855)</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(1,415)</u>	<u>(3,838)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(1,415)</u>	<u>(3,838)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(20,634)</u>	<u>(14,693)</u>
ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>(20,634)</u>	<u>(14,693)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		6,175	10,685
Right-of-use assets		5,530	–
Financial asset at fair value through profit or loss (“FVPL”)		4,742	4,632
Prepayments, other receivables and other assets		1,908	5,971
Deferred tax assets		–	2,648
Total non-current assets		18,355	23,936
CURRENT ASSETS			
Inventories		11,382	14,761
Trade receivables	9	10,404	17,441
Prepayments, other receivables and other assets		4,821	5,426
Tax recoverable		–	129
Cash and cash equivalents		34,531	30,938
Total current assets		61,138	68,695
CURRENT LIABILITIES			
Trade payables	10	5,199	5,122
Other payables and accruals		4,696	6,729
Interest-bearing bank borrowings	11	19,967	15,217
Lease liabilities		2,155	–
Tax payable		1,135	1,234
Total current liabilities		33,152	28,302
NET CURRENT ASSETS		27,986	40,393
TOTAL ASSETS LESS CURRENT LIABILITIES		46,341	64,329
NON-CURRENT LIABILITIES			
Lease liabilities		3,869	–
Other payables and accruals		–	1,223
Total non-current liabilities		3,869	1,223
Net assets		42,472	63,106
EQUITY			
Share capital		8,000	8,000
Reserves		34,472	55,106
Total equity		42,472	63,106

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 18 August 2016. The registered office address of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the manufacture and trading of sewing threads and broad categories of garment accessories.

In the opinion of the directors, the ultimate holding company of the Group is Three Gates Investment Limited, which was incorporated in the British Virgin Islands (“**BVI**”) with limited liability and is controlled by Mr. Wong Kwok Wai, Albert (“**Mr. Wong**”).

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial asset at FVPL which has been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

In January 2020, the Independent Commission against Corruption (the “**ICAC**”) conducted a search of the registered office of the Company and the Company's chairman and chief executive officer was under investigation (the “**Investigation**”) with no prosecution issued by the ICAC up to the date of approval of these consolidated financial statements.

In the opinion of the directors of the Group, the Investigation does not have material impact to these financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised standards has had no significant financial effect on the financial statements of the Group.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

For a sublease arrangement, the classification of the sublease is made by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a 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 obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“**short-term leases**”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the lease liabilities and right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) <i>HK\$'000</i>
Assets	
Increase in right-of-use assets	5,992
Decrease in prepayments, other receivables and other assets	(1,608)
	<hr/>
Increase in total assets	4,384
	<hr/> <hr/>
Liabilities	
Increase in lease liabilities	5,827
Decrease in other payables and accruals	(1,443)
	<hr/>
Increase in total liabilities	4,384
	<hr/> <hr/>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	<i>HK\$'000</i>
Operating lease commitments as at 31 December 2018	8,501
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(1,863)
	<hr/>
	6,638
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
	<hr/>
Discounted operating lease commitments and lease liabilities as at 1 January 2019	5,827
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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business¹</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 17	<i>Insurance Contracts²</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material¹</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current³</i>

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ No mandatory effective date yet determined but available for adoption

The Group expects that the adoption of the above new and revised standards will have no significant impact on these financial statements.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and trading of high performance sewing threads and broad categories of garment accessories. For management purposes, the Group operates in one business unit and has one reportable operating segment, which is the thread segment that manufactures and sells sewing threads and garment accessories. Accordingly, no further operating segment information is presented.

Geographical information

(a) Revenue from external customers

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Mainland China	32,968	39,056
Overseas	22,233	21,995
Hong Kong	3,545	3,459
	<u>58,746</u>	<u>64,510</u>

The revenue information is based on the locations of the customers.

(b) Non-current assets

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Mainland China	10,472	11,782
Hong Kong	1,233	230
	<u>11,705</u>	<u>12,012</u>

The non-current asset information is based on the locations of the assets and excludes deferred tax assets, a financial asset at FVPL, long-term rental deposits and loans to a vendor included in the prepayments, other receivables and other assets.

Information about a major customer

Revenue of approximately HK\$18,950,000 (2018: HK\$19,043,000) was derived from sales to a single customer.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue from contracts with customers	<u>58,746</u>	<u>64,510</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Type of goods		
Sale of industrial products	<u>58,746</u>	<u>64,510</u>
Geographical markets		
Mainland China	32,968	39,056
Overseas	22,233	21,995
Hong Kong	<u>3,545</u>	<u>3,459</u>
Total revenue from contracts with customers	<u>58,746</u>	<u>64,510</u>
Timing of revenue recognition		
Goods transferred at a point in time	<u>58,746</u>	<u>64,510</u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Sale of industrial products	<u>187</u>	<u>39</u>

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 90 days from delivery, except for certain customers where payment in advance is required.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Other income and gains		
Gross rental income	901	741
Fair value gains, net:		
Financial asset at FVPL	110	158
Exchange gains, net	404	1,126
Interest income	214	12
Others	<u>410</u>	<u>–</u>
	<u>2,039</u>	<u>2,037</u>

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Cost of inventories sold		47,416	51,232
Depreciation of property, plant and equipment		955	668
Recognition of prepaid lease payments for buildings		–	486
Depreciation of right-of-use assets		1,684	–
Minimum lease payments under operating leases		–	2,019
Lease payments not included in the measurement of lease liabilities		791	–
Auditor's remuneration		1,819	1,780
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		14,131	14,926
Pension scheme contributions		3,096	3,541
Severance payments		65	234
		<u>17,292</u>	<u>18,701</u>
Fair value gains, net:			
Financial asset at FVPL		(110)	(158)
Foreign exchange gains, net*		(404)	(1,126)
Losses on disposal of items of property, plant and equipment*		18	603
Interest income	4	(214)	(12)
Impairment of trade and other receivables, net		3,103	499
Impairment of non-financial assets*		3,922	913

* The losses and gains are included in "Other expenses" and "Other income and gains" in the consolidated statement of profit or loss, respectively.

6. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to corporate income tax at a rate of 25% on the taxable income.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current — Hong Kong and Mainland China	(74)	209
Deferred	<u>2,636</u>	<u>(1,760)</u>
	<u><u>2,562</u></u>	<u><u>(1,551)</u></u>

7. DIVIDENDS

No dividend was proposed by the Group for the years ended 31 December 2019 and 2018.

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

	2019 <i>HK cents</i>	2018 <i>HK cents</i>
Loss per share attributable to ordinary equity holders of the parent — Basic and diluted	<u>2.40</u>	<u>1.36</u>

The calculation of the basic and diluted loss per share is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of shares in issue during the year.

The calculation of basic and diluted loss per share is based on:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	<u>19,219</u>	<u>10,855</u>
	2019	2018
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	<u>800,000,000</u>	<u>800,000,000</u>

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

9. TRADE RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	10,609	18,152
Impairment	<u>(205)</u>	<u>(711)</u>
	<u><u>10,404</u></u>	<u><u>17,441</u></u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally from one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. The Group had significant concentrations of credit risk as 25% (2018: 26%) of the trade receivables were derived from one (2018: one) customer as at 31 December 2019. The trade receivables from such customer were within the credit period. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 1 month	6,842	5,682
1 to 2 months	2,861	7,771
2 to 3 months	545	1,624
Over 3 months	156	2,364
	<u>10,404</u>	<u>17,441</u>

10. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each reporting period, based on the transaction date, is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 1 month	1,602	1,930
1 to 2 months	1,240	1,085
2 to 3 months	791	679
Over 3 months	1,566	1,428
	<u>5,199</u>	<u>5,122</u>

The trade payables are unsecured, non-interest-bearing and are normally settled on terms of 30 to 90 days.

11. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	2019 Maturity	<i>HK\$'000</i>
Current			
Overdrafts	5.0	On demand	4,934
Bank loans — secured	4.0 to 6.2	On demand	<u>15,033</u>
			<u>19,967</u>

	Effective interest rate (%)	2018 Maturity	HK\$'000
Current			
Bank loans — secured	4.6 to 6.2	On demand	<u>15,217</u>
Analysed into:			
		2019	2018
Bank loans and overdrafts repayable on demand		<u>19,967</u>	<u>15,217</u>
Interest-bearing bank borrowings are denominated in:			
		2019	2018
		HK\$'000	HK\$'000
HK\$		11,934	7,000
United States Dollar (“US\$”)		<u>8,033</u>	<u>8,217</u>
		<u>19,967</u>	<u>15,217</u>

Notes:

- (a) HK Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* issued by the HKICPA requires that a loan which includes a clause that gives the lender the unconditional right to call in the loan at any time (“**repayment on demand clause**”) shall be classified in total by the borrower as current in the statement of financial position. Interest-bearing bank borrowings of the Group in the amount of HK\$19,967,000 (2018: HK\$15,217,000) include a repayment on demand clause under the relevant loan agreements, among which balances amounting to HK\$2,860,000 (2018: HK\$3,190,000) that are repayable after one year from 31 December 2019 have been classified as current liabilities. For the purpose of the above analysis, such loans are included within current secured bank borrowings and analysed into bank borrowings repayable on demand.
- (b) As at 31 December 2018, the Group was not in compliance with certain financial loan covenants and the relevant bank borrowings of HK\$15,217,000 would become callable on demand. No further reclassification is needed regarding these bank borrowings since they all included the repayment on demand clause and have already been classified as current liabilities as mentioned in (a) above.
- (c) The Group’s bank facilities (including overdraft facilities) amounted to HK\$20,252,000 (2018: HK\$20,445,000), of which HK\$19,967,000 (2018: HK\$15,217,000) had been utilised as at 31 December 2019.
- (d) The following assets were pledged as security for interest-bearing bank borrowings:

	Carrying amounts	
	2019	2018
	HK\$'000	HK\$'000
Financial asset at FVPL	4,742	4,632
Trade receivables	<u>3,622</u>	<u>7,355</u>
	<u>8,364</u>	<u>11,987</u>

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The Company's independent auditor has expressed a qualified opinion in its auditor's report on the Group's consolidated financial statement for the year ended 31 December 2019, an extract of which is as follows:

Qualified opinion

We have audited the consolidated financial statements of Shen You Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of 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, except for the effects of the matter described in the "Basis for qualified opinion" section of our report, 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 ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for qualified opinion

On 14 January 2020, the Independent Commission against Corruption (the "**ICAC**") conducted a search of the registered office of the Company and the Company's Chairman and Chief Executive Officer is currently under investigation by the ICAC. Furthermore, pursuant to a press release made by the ICAC on 25 March 2020, two individuals have been charged by the ICAC for alleged bribery and misconduct in public office and the name of the Company was associated with the charges. As the ICAC investigation is ongoing, the information available is very limited at this stage. We are unable to obtain sufficient and appropriate audit evidence to evaluate whether the investigation may have any impact on the operations and the financial positions of the Group.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") 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 for our qualified opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The Group is principally engaged in the manufacture and selling of sewing threads and broad categories of garment accessories. It currently manufactures polyester sewing threads, which are mainly used for garments. The major product of the Group is 100% spun polyester sewing threads. Other types of sewing threads are also offered, including textured polyester series, elastic filament sewing threads, weft yarn and nylon threads. The Group's customers are located in the PRC, Hong Kong as well as overseas countries, including United Arab Emirates (“UAE”), Mauritius, Switzerland and the United Kingdom. While the Group's customers in the PRC and Hong Kong are mainly garment manufacturers, its overseas customers are mainly wholesalers. The production facilities of the Group, where the sewing threads manufacturing process is conducted, are located in Liwan, Guangzhou (the “**Guangzhou Production Facilities**”).

Business Review

For the year ended 31 December 2019, the Group's revenue decreased by approximately 8.9% as compared with that for the year ended 31 December 2018. The gross profit margin decreased to approximately 19.3% for the year ended 31 December 2019 from approximately 20.6% for the preceding year. The decrease was mainly attributable to the decrease in sales in the PRC market, which accounted for approximately 56.1% of the total revenue for the year ended 31 December 2019.

On 15 December 2017, the Shares were successfully listed on GEM of the Stock Exchange (the “**Listing**”) by way of share offer (the “**Share Offer**”). After deducting all the relevant commission and expenses in relation to the Listing, net proceeds amounting to approximately HK\$40.7 million have been raised from the Listing. As at 31 December 2019, the unutilised net proceeds from the Share Offer amounted to approximately HK\$29.1 million.

While the Group's business has experienced some difficulty as a result of the unfavourable market conditions immediately after the Listing, the Board and the senior management of the Company are confident of the Group's steady performance given its competitive strengths, which include: (i) the long-term business relationships with its customers and suppliers; (ii) adoption of the stringent quality control mechanisms in the course of sewing threads production; (iii) the strategic location of the Guangzhou Production Facilities for its business development; and (iv) an experienced management team with extensive industry experience. Further details of the future prospects of the Group are set out in the section headed “Future Plans and Prospects” in this announcement.

Financial Review

Revenue

The Group's products are sold in the PRC, Hong Kong as well as overseas. The following table sets out a breakdown of the Group's revenue attributable to domestic and overseas sales of the Group's sewing threads for the two years ended 31 December 2019:

	Year ended 31 December				Rate of change %
	2019		2018		
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	
PRC	32,968	56.1	39,056	60.5	(15.6)
Overseas <i>(Note)</i>	22,233	37.9	21,995	34.1	1.1
Hong Kong	3,545	6.0	3,459	5.4	2.5
	<u>58,746</u>	<u>100.0</u>	<u>64,510</u>	<u>100.0</u>	(8.9)

Note: For the two years ended 31 December 2019, the Group exported its products to countries including but not limited to UAE, Mauritius, Switzerland and the United Kingdom.

The following table sets out the breakdown of the revenue by product that the Group offers for sale for the two years ended 31 December 2019:

	Year ended 31 December				Rate of change %
	2019		2018		
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	
100% spun polyester sewing threads	52,053	88.6	55,764	86.4	(6.7)
Other threads <i>(Note)</i>	6,693	11.4	8,746	13.6	(23.5)
	<u>58,746</u>	<u>100.0</u>	<u>64,510</u>	<u>100.0</u>	(8.9)

Note: Other threads comprise textured polyester series, elastic filament sewing threads, weft yarn and nylon threads.

The Group's revenue decreased to approximately HK\$58.7 million for the year ended 31 December 2019 from approximately HK\$64.5 million for the year ended 31 December 2018, representing a decrease of approximately 8.9%. Such decrease was mainly due to the decrease in sales to the PRC market, which accounted for approximately 56.1% of the total revenue for the year ended 31 December 2019.

Cost of sales

The Group's cost of sales primarily consists of direct material costs, processing fees and direct labour costs. The cost of sales decreased to approximately HK\$47.4 million for the year ended 31 December 2019 from approximately HK\$51.2 million for the year ended 31 December 2018, representing a decrease of approximately 7.4%. The Group's cost of sales decreased for the year ended 31 December 2019 mainly as a result of the aforementioned decrease in revenue.

Gross profit and gross profit margin

The Group's gross profit margin decreased to approximately 19.3% from 20.6% for the year ended 31 December 2019, which was a result of the increase in the charge rate of processing fees and the unit cost of raw materials.

The Group's gross profit decreased to approximately HK\$11.3 million for the year ended 31 December 2019 from approximately HK\$13.3 million for the year ended 31 December 2018, representing a decrease of approximately 14.7%. The decrease was mainly a result of the aforementioned decrease in revenue and decrease in the gross profit margin.

Other losses, net

The Group recorded other losses, net of approximately HK\$2.7 million for the year ended 31 December 2019 as compared with other losses, net of approximately HK\$0.3 million for the year ended 31 December 2018, representing an increase of approximately 911.4%. Such increase was mainly attributable to increase in the losses for impairment of fixed assets.

Selling and distribution expenses

Selling and distribution expenses mainly consist of staff costs and transportation expenses. Selling expenses decreased to approximately HK\$7.4 million for the year ended 31 December 2019 from approximately HK\$7.6 million for the year ended 31 December 2018. Such decrease was mainly due to the decrease in transportation expenses as a result of the aforementioned decrease in revenue.

Administrative expenses

Administrative expenses primarily consist of staff costs, Directors' remuneration and legal and professional fees. Administrative expenses decreased to approximately HK\$13.5 million for the year ended 31 December 2019 from approximately HK\$16.5 million for the year ended 31 December 2018, representing a decrease of approximately 17.9%. Such decrease was mainly attributable to the decrease in legal and professional fees.

Finance costs

The Group's finance costs increased to approximately HK\$1.3 million for the year ended 31 December 2019 from approximately HK\$0.9 million for the year ended 31 December 2018, representing an increase of approximately 48.2%. Such increase was mainly a result of the increase in the interest expense on bank borrowings and additional interest expenses on lease liabilities due to the adoption of HKFRS 16 on 1 January 2019.

Loss before income tax

As a result of the aforesaid, the Group recorded a loss before income tax of approximately HK\$16.7 million for the year ended 31 December 2019 from approximately HK\$12.4 million for the year ended 31 December 2018, representing an increase of approximately 34.3%.

Income tax (expense)/credit

The Group recorded income tax credit of approximately HK\$1.6 million for the year ended 31 December 2018 while income tax expense of approximately HK\$2.6 million was recorded for the year ended 31 December 2019. The Group's effective tax rate decreased from approximately 12.5% for the year ended 31 December 2018 to approximately negative 15.4% for the year ended 31 December 2019, which was a result of write-off of deferred tax assets recognised in prior years and increase in tax losses not recognised.

Total comprehensive loss attributable to the owners of the parent

The total comprehensive loss attributable to the owners of the parent increased to approximately HK\$20.6 million for the year ended 31 December 2019 from approximately HK\$14.7 million for the year ended 31 December 2018, representing an increase of approximately 40.4%. Such increase was mainly due to the combined effect of the increase in the Group's loss for the year ended 31 December 2019 as compared with that for the year ended 31 December 2018 due to the reasons mentioned above and the decrease in exchange differences on translation of foreign operations.

Basic and diluted loss per share

The Company's basic and diluted loss per share for the year ended 31 December 2019 was approximately HK2.40 cents (2018: HK1.36 cents), representing an increase of approximately 76.5%, which was mainly due to the increase in loss attributable to the owners of the parent.

Final dividend

The board did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

Liquidity and Financial Resources

For the year ended 31 December 2019, the Group's operations were primarily financed through its operating and financing activities. The Directors believe that in the long term, the Group's operations will continue to be funded by a combination of cash generated from the Group's operating activities and financing activities.

The Group's cash and bank balances amounted to approximately HK\$34.5 million and approximately HK\$30.9 million as at 31 December 2019 and 2018, respectively. The functional currency of the Group is the Hong Kong dollar. As at 31 December 2019, 98.7% of the Group's cash and bank balances were denominated in the Group's functional currency (31 December 2018: 92.8%) and the remaining 1.3% (31 December 2018: 7.2%) in other currencies, mainly the Renminbi.

As at 31 December 2019 and 2018, the Group had net current assets of approximately HK\$28.0 million and approximately HK\$40.4 million, respectively, which included trade receivables, prepayments, other receivables and other assets, inventories and cash and cash equivalents. The Group's current ratio decreased from approximately 2.4 as at 31 December 2018 to approximately 1.8 as at 31 December 2019. The Group's bank borrowings increased from approximately HK\$15.2 million as at 31 December 2018 to approximately HK\$20.0 million as at 31 December 2019. Such increase was mainly due to the increase in the Group's financing need under unfavourable market conditions.

Gearing Ratio

The Group's gearing ratio is calculated based on net debt (including interest-bearing bank borrowings, trade payables, other payables and accruals, and lease liabilities, less cash and cash equivalents) divided by the total equity plus net debt at the respective reporting date. The gearing ratio was 3.1% as at 31 December 2019. The gearing ratio was not applicable to the Group as at 31 December 2018 as its cash and bank balances were more than the aggregate amount of the bank borrowings, trade payables, other payables and accruals, and lease liabilities. The Group believes that the cash at banks and the bank borrowings provide adequate liquidity to satisfy the Group's funding requirements.

Capital Commitments

As at 31 December 2019, the Group did not have any capital commitments (as at 31 December 2018: HK\$0.1 million).

Capital Structure

There has been no change in the capital structure since the Listing. The share capital of the Group only comprises ordinary Shares.

As at 31 December 2019, the Company's issued share capital amounted to HK\$8.0 million, divided by 800,000,000 shares of HK\$0.01 each.

Significant Investments

As at 31 December 2019, the Group did not hold any significant investments (as at 31 December 2018: Nil).

Material Acquisitions or Disposals of Subsidiaries and Affiliated Companies

During the year ended 31 December 2019, the Group did not have any acquisitions or disposals of subsidiaries and affiliated companies.

Future Plans for Material Investments and Capital Assets

Save as those disclosed in the prospectus of the Company dated 30 November 2017 (the "Prospectus"), the Group currently has no other plan for material investments and capital assets.

Contingent Liabilities

As at 31 December 2019, the Group did not have material contingent liabilities (as at 31 December 2018: Nil).

Foreign Exchange Exposure

The Group is exposed to foreign currency risk when it enters into transactions which are not denominated in the Group's functional currency. Such exposure mainly relates to the distribution and sale of the Group's products and purchases of raw materials in the PRC. The Group currently does not have a foreign currency hedging policy. Yet, the Group's management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Pledge of Assets

As at 31 December 2019 and 2018, the following assets were pledged to banks to secure certain banking facilities granted to the Group:

	As at 31 December	
	2019	2018
	HK\$'000	HK\$'000
Financial asset at FVPL	4,742	4,632
Trade receivables	3,622	7,355
	<u>8,364</u>	<u>11,987</u>

Employees and Remuneration Policies

As at 31 December 2019, the Group employed a total of 172 employees (as at 31 December 2018: 184), of whom 161 were located in the PRC and 11 were located in Hong Kong. The Group's staff costs mainly comprised wages and salaries, social insurance, housing provident fund and severance payments. For the two years ended 31 December 2019, the Group's total staff costs (excluding Directors' emoluments) amounted to approximately HK\$18.7 million and HK\$17.3 million, respectively. The Group offers remuneration packages comprising basic salaries, discretionary bonuses and allowances to its management and office staff. For the workers at the Guangzhou Production Facilities, the Group offers them salaries above the minimum wage, promotion opportunities and budgets for social events.

The remuneration committee of the Company is responsible for reviewing and determining the remuneration packages of the Directors and senior management members with reference to the salaries paid by comparable companies, time commitment and responsibilities, employment conditions elsewhere in the Group and the desirability of performance-based remuneration. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of the Directors and senior management members. The Company adopted a share option scheme (the “**Share Option Scheme**”) on 24 November 2017, under which the Company may grant options to, among others, any employees (full-time or part-time) or Directors with a view to rewarding them for their contributions to the Group, giving incentive to them for optimising their performance and efficiency and attracting as well as retaining those whose future contributions are important to the long-term growth and profitability of the Group. Since the adoption of the Share Option Scheme and up to the date of this announcement, no share options have been granted pursuant to the Share Option Scheme.

Compliance with Laws and Regulations

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Group has in all material respects complied with all relevant laws, rules and regulations that have a significant impact on the Group and its operations in Hong Kong and the PRC.

Environmental Policies and Performance

In order to better integrate the concept of social responsibility into the Group’s strategy and decision-making and to further guide the Group to develop a socially responsible practice, the Group has established an environmental, social and governance (“**ESG**”) report preparation team. While preparing the report, the Group strives to incorporate the notion of sustainable development into its daily operations.

Meanwhile, the Group has established a systematic stakeholder communication channel with the aim to facilitate positive interactions with the Group’s stakeholders, actively respond to relevant litigation issues and promote quality, effective and sustainable growth. Throughout the year ended 31 December 2019, the Group has maintained its business integrity and dedication to environmental protection, while continuously striving to improve quality management and employee care.

For further information in relation to the Group’s ESG practices, please refer to the Group’s separate ESG report, which is expected to be published on the websites of the Stock Exchange and the Company within three months after the publication of the annual report of the Company.

Relationship with Stakeholders

Employees are considered to be one of the most important factors that contribute to the productivity of the Group. Employees of the Group are mainly provided with on-the-job training as well as remuneration packages and allowances.

The Group also communicates closely with its customers to obtain valuable feedback and provides them with information about the Group's products and trends in the sewing threads market. The Group has maintained business relationships with its five largest customers for a period ranging from approximately five to 20 years, respectively. Likewise, the Group has also established stable relationships with its suppliers. As such, the Directors believe that the Group has developed a trustworthy and reliable reputation as well as a strong partnership with its customers and suppliers.

Use of Proceeds

As disclosed in the Prospectus, the net proceeds from the Share Offer were approximately HK\$40.7 million, after deducting commission and expenses borne by the Company in connection with the Share Offer (the "Net Proceeds"). As at 31 December 2019, the unutilised Net Proceeds amounted to approximately HK\$29.1 million.

As at 31 December 2019, the Net Proceeds had been applied and utilised as follows:

	Net Proceeds available <i>HK\$ million</i>	Utilised <i>HK\$ million</i>	Unutilised <i>HK\$ million</i>
Upgrading the Group's machinery for the production of 100% spun polyester sewing threads for industrial use	20.3	3.1	17.2
Upgrading the Group's machinery for the production of 100% spun polyester sewing threads for domestic use	7.7	2.2	5.5
Acquiring new cone winding machines	4.1	0.5	3.6
Acquiring new machinery for the production of nylon threads	3.7	1.3	2.4
Setting up a sales office in Zhejiang province	1.2	0.8	0.4
Working capital and other general corporate purposes of the Group	3.7	3.7	–
	40.7	11.6	29.1
	40.7	11.6	29.1

Below is an analysis comparing the future plans and use of proceeds contained in the Prospectus from the date of the Listing up to 31 December 2019:

Business strategy	Implementation plan	Actual progress as at 31 December 2019
Upgrading the Group's machinery for the production of 100% spun polyester sewing threads for industrial use	— Purchase eight waxing and winding machines for the production of 100% spun polyester sewing threads for industrial use	The Group has purchased and is operating two waxing and winding machines for the production of 100% spun polyester sewing threads for industrial use.
Upgrading the Group's machinery for the production of 100% spun polyester sewing threads for domestic use	— Purchase two machines for the production of 100% spun polyester sewing threads for domestic use	The Group has purchased and is operating one machine for the production of 100% spun polyester sewing threads for domestic use.
Acquiring new machinery for the production of nylon threads	— Purchase five machines for the production of nylon threads	The Group has purchased and is operating three machines for the production of nylon threads.
Setting up a sales office in Zhejiang province	— Lease suitable premises for the Group's sales office — Renovate the sales office — Purchase office equipment	The Group has set up a sales office in Zhejiang Province, which is currently in full operation.
Acquiring new cone winding machines	— Order two cone winding machines to facilitate the production lines for 100% spun polyester sewing threads and paying the balance for two cone winding machines	The Group has purchased and is operating one cone winding machine.

Future Plans and Prospects

The future plans and use of proceeds schedule disclosed in the Prospectus were formulated based on the best estimation of the market conditions after the Listing. The discrepancy between the planned use of the Net Proceeds and the actual use mainly arose as a result of the actual market conditions affecting the Group after the Listing. The continuing trade conflict between the U.S. and the PRC, the PRC's gradual economic slowdown and the recent outbreak of coronavirus (COVID-19) epidemic have presented the Group with uncertainties and multiple challenges, rendering the need for the Group to be prudent in implementing its future plans as set out in the Prospectus. The Directors believed that a strict adherence to the implementation plan will increase the production capacity of the Group, while the additional machinery may lead to a provision for impairment for such machinery to be made in the future.

Meeting the demands of its customers as to high quality and differentiated products is one of the Group's priorities in order to maintain long-term business relationships with its customers. Further, the Directors believe that there are considerable business opportunities in the sewing threads industry in the long term. To satisfy its customers' potential needs and to capture the business opportunities in the sewing threads industry, the Group will continue to implement the expansion plans set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus in a prudent and conservative manner in light of the market conditions at the time.

The Directors will continue to carefully monitor and assess the situation and, if the expansion plans no longer suit the operation and the future development of the Group, the Directors may evaluate and modify them so as to ensure that the Group's business strategies are in the best interests of the Company and the Shareholders as a whole.

OTHER INFORMATION

Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and Any Associated Corporation

As at 31 December 2019, the interests or short positions of each of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the “SFO”)), which were (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) required to be recorded in the register required to be kept under section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Name of Director	Nature of interest/ Holding capacity	Number of ordinary shares held	Percentage of issued share capital of the Company (Note 1)
Mr. Wong Kwok Wai, Albert	Interest of a controlled corporation	600,000,000 (L) (Notes 2, 3)	75%

Notes:

1. As at the date of this announcement, the Company’s issued ordinary share capital was HK\$8,000,000 divided into 800,000,000 Shares of HK\$0.01 each.
2. Three Gates Investment Limited (“**Three Gates Investment**”), a company incorporated in the British Virgin Islands on 15 August 2016 is wholly and beneficially owned by Mr. Wong, who is the chairman and an executive director of the Company. Therefore, Mr. Wong is deemed to be interested in 600,000,000 Shares held by Three Gates Investment by virtue of the SFO.
3. The letter “L” denotes the person’s long position in the Shares.

Except as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange according to rules 5.46 to 5.67 of the GEM Listing Rules.

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

To the best knowledge of the Directors, as at 31 December 2019, the following persons or corporations (other than the Directors and the chief executive of the Company) who had interests and/or short positions in the shares or underlying shares of the Company which would be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Substantial Shareholder	Nature of interest/ Holding capacity	Number of ordinary shares held	Percentage of issued share capital of the Company (Note 1)
Three Gates Investment	Beneficial owner	600,000,000 (L) (Notes 2, 3)	75%
Gold-Face Finance Limited	Person having a security interest in Shares	400,000,000 (L) (Notes 3, 4, 5)	50%
Upbest Credit and Mortgage Limited	Person having a security interest in Shares	400,000,000 (L) (Notes 3, 4, 5)	50%
Good Foundation Company Limited	Person having a security interest in Shares	400,000,000 (L) (Notes 3, 4, 5)	50%
Upbest Strategic Company Limited	Person having a security interest in Shares	400,000,000 (L) (Notes 3, 4, 5)	50%
Upbest Financial Holdings Limited	Person having a security interest in Shares	400,000,000 (L) (Notes 3, 4, 5)	50%
Upbest Group Limited	Person having a security interest in Shares	400,000,000 (L) (Notes 3, 4, 5)	50%

Notes:

- As at the date of this announcement, the Company's issued ordinary share capital was HK\$8,000,000 divided into 800,000,000 Shares of HK\$0.01 each.
- Three Gates Investment is wholly and beneficially owned by Mr. Wong, who is the chairman and an executive Director of the Company. Therefore, Mr. Wong is deemed to be interested in 600,000,000 Shares held by Three Gates Investment by virtue of his 100% shareholding interest in Three Gates Investment.
- 400,000,000 Shares held by Three Gates Investment have been charged in favour of Gold-Face Finance Limited ("**Gold-Face**") as security for a loan granted in favour of Mr. Wong Kwok Wai, Albert, the chairman, chief executive officer, executive director and controlling shareholder of the Company.

4. As Gold-Face is wholly-owned by Upbest Credit and Mortgage Limited, which in turn is wholly-owned by Upbest Strategic Company Limited and Good Foundation Company Limited in equal parts, which in turn are both wholly-owned by Upbest Financial Holdings Limited, which in turn is wholly-owned by Upbest Group Limited, Upbest Credit and Mortgage Limited, Upbest Strategic Company Limited, Good Foundation Company Limited, Upbest Financial Holdings Limited and Upbest Group Limited are all deemed to be interested in the security interest in the 400,000,000 Shares charged in favour of Gold-Face by virtue of the SFO.
5. The letter “L” denotes the person’s long position in the Shares.

Except as disclosed above, as at 31 December 2019, the Directors are not aware of any interests and short positions owned by any other parties, other than a Director or the chief executive of the Company who held interests or short positions in the shares and the underlying shares of the Company, which were required to be recorded under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was interested, directly or indirectly, in 10% 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.

Corporate Governance Practices

The Board believes that cultivating and maintaining a culture focused on good corporate governance is essential to effect strong business growth and continue the efficient management of the Company. The Directors are of the view that strong corporate governance practices can safeguard the interests of and ensure accountability to the shareholders of the Company (the “**Shareholders**”) as a whole.

The corporate governance code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules has been adopted by the Board. Nevertheless, the Directors are committed to regularly reviewing its corporate governance practices to ensure conformity with the standard set out in the CG Code, as well as meeting the rising expectation of the Shareholders and other stakeholders of the Company.

Except for the deviation from code provision A.2.1 of the CG Code, the Board is of the view that the Company has complied with the code provisions for the year ended 31 December 2019.

Mr. Wong Kwok Wai, Albert is the chairman of the Board and the chief executive officer of the Company and has been involved in the daily operations and management of the Group since 2008. The Directors consider that vesting the roles of the chairman of the Board and the chief executive officer of the Company in Mr. Wong will ensure strong and consistent leadership, facilitate the Group’s business strategies and boost the effectiveness of its operation. The Board will continue to review this arrangement and consider splitting the roles of the chairman of the Board and the chief executive officer of the Company when such role splitting is beneficial to the Group as a whole.

Model Code for Directors' Securities Transactions

The Company has adopted the standard of dealings regarding securities transactions by the Directors equivalent to the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Directors have all confirmed, having been made specific enquiry by the Company, that they have complied with the required standard of dealings and the required standard concerning securities transactions by the Directors during the year ended 31 December 2019.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019 and up to the date of this announcement.

Directors' and Controlling Shareholders' Interests in Competing Businesses

The Directors and the controlling shareholders of the Company have confirmed that for the year ended 31 December 2019 and up to the date of this announcement, none of the Directors, controlling Shareholders or any of their respective close associates (as defined in the GEM Listing Rules) engaged in any businesses that compete or may compete with the business of the Group, or had any other conflict of interest with the Group.

On 24 November 2017, each of Mr. Wong Kwok Wai, Albert and Three Gates Investment, being the controlling Shareholders, entered into a non-competition undertaking in favour of the Company, details of which were set out in the section headed "Relationship with our Controlling Shareholders — Non-competition Undertaking" in the Prospectus. Such undertakings have been fully complied with and enforced during the year ended 31 December 2019 and up to the date of this announcement.

The Board confirms that as at the date of this announcement, no other matters are required to be brought to the attention of the Shareholders and the potential investors.

Further, the independent non-executive Directors confirm that they have reviewed the enforcement of such undertakings and conclude that there are no outstanding issues regarding the undertakings that need to be raised with the Shareholders and the Company.

Events after the Year Ended 31 December 2019

ICAC Investigation

In January 2020, the ICAC conducted a search of the registered office of the Company and the Company's chairman and chief executive officer was under investigation.

Impact of new coronavirus pneumonia epidemic

Since the outbreak of the new coronavirus pneumonia epidemic (the “**Epidemic**”) in the PRC, a number of provinces and cities in the PRC have taken emergency public health measures and various regulations and requirements for epidemic prevention and controls were issued by national governments at all levels (the “**Prevention Regulations**”). The Group has actively responded to the Prevention Regulations and resumed the production since February 2020. Given the dynamic nature of the circumstances, the uncertainty about the duration of the Epidemic and the situation of epidemic preventive measures, up to the date of the report, the assessment of the related impact on the Group is still in progress.

Sufficiency of Public Float

The Directors confirm that during the year ended 31 December 2019 and up to the date of this announcement, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has complied with the minimum public float as required under the GEM Listing Rules.

Audit Committee

The Audit Committee was established pursuant to rules 5.28 to 5.33 of the GEM Listing Rules and code provision C.3.3 of the CG Code. The Audit Committee is mainly responsible for reviewing financial information, monitoring the Company's financial reporting system and internal control procedures and maintaining the relationship with the Company's auditors.

The Audit Committee consists of three independent non-executive Directors, namely, Mr. Sung Alfred Lee Ming (the chairman), Dr. Yeung Ngai Man, John and Mr. Zhang Guofu. No member of the current Audit Committee is a member of the previous independent auditor of the Company. The Audit Committee has reviewed this announcement as well as the consolidated results of the Group for the year ended 31 December 2019.

Publication of Information on the Website of the Stock Exchange

This announcement will be published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.shenyouholdings.com). The annual report for the year ended 31 December 2019 containing all the information required by the GEM Listing Rules will be published on the respective websites of the Stock Exchange and the Company and despatched to the Shareholders in due course.

Scope of Work of Independent Auditor

The figures in respect of the Group's results for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Group's independent auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Group's independent auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Group's independent auditors on this preliminary announcement of results.

Annual General Meeting and Closure of the Register of Members

The forthcoming annual general meeting (the "AGM") of the Company will be held on Friday, 26 June 2020 at Unit 1103-06, China Building, 29 Queen's Road Central, Hong Kong. For the purpose of determining Shareholders' entitlement to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Monday, 22 June 2020 to Friday, 26 June 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, all transfer of Shares accompanied by the relevant share certificates and transfer documents must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Friday, 19 June 2020.

By order of the Board
Shen You Holdings Limited
Wong Kwok Wai, Albert

Chairman, chief executive officer and executive Director

Hong Kong, 31 March 2020

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Wong Kwok Wai, Albert and Mr. Chan Yiu Tung, Enoch; one non-executive Director, namely, Mr. Gao Biao; and three independent non-executive Directors, namely, Dr. Yeung Ngai Man, John, Mr. Sung Alfred Lee Ming and Mr. Zhang Guofu.

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