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 2018

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 2018, together with the comparative figures for the year ended 31 December 2017, which are presented in Hong Kong dollars ("**HK$**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
REVENUE	*4*	**64,510**	74,371
Cost of sales		**(51,232)**	(48,853)
Gross profit		**13,278**	25,518
Other income and gains	*4*	**2,037**	642
Selling and distribution expenses		**(7,579)**	(6,408)
Administrative expenses		**(16,456)**	(9,831)
Impairment losses on financial assets		**(499)**	–
Other expenses		**(2,301)**	(20,108)
Finance costs		**(886)**	(2,291)
LOSS BEFORE TAX	*5*	**(12,406)**	(12,478)
Income tax credit/(expense)	*6*	**1,551**	(712)
LOSS FOR THE YEAR		**(10,855)**	(13,190)
ATTRIBUTABLE TO OWNERS OF THE PARENT		**(10,855)**	(13,190)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic and diluted (expressed in HK cents per share)		**(1.36)**	(2.16)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(10,855)**	(13,190)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investment:		
Change in fair value	**–**	169
Income tax effect	**–**	(28)
	–	141
Exchange differences on translation of foreign operations	**(3,838)**	4,997
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(3,838)**	5,138
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(14,693)**	(8,052)
ATTRIBUTABLE TO OWNERS OF THE PARENT	**(14,693)**	(8,052)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**10,685**	6,902
Financial asset at fair value through profit or loss ("FVPL")		**4,632**	–
Available-for-sale investment		**–**	4,474
Prepayments, other receivables and other assets		**5,971**	2,165
Deferred tax assets		**2,648**	1,338
Total non-current assets		**23,936**	14,879
CURRENT ASSETS			
Inventories		**14,761**	9,995
Trade receivables	*9*	**17,441**	24,900
Prepayments, other receivables and other assets		**5,426**	12,665
Pledged deposits		**–**	9,000
Tax recoverable		**129**	–
Cash and cash equivalents		**30,938**	57,920
Total current assets		**68,695**	114,480
CURRENT LIABILITIES			
Trade payables	*10*	**5,122**	9,269
Other payables and accruals		**6,729**	15,709
Interest-bearing bank borrowings	*11*	**15,217**	22,627
Tax payable		**1,234**	1,943
Total current liabilities		**28,302**	49,548
NET CURRENT ASSETS		**40,393**	64,932
TOTAL ASSETS LESS CURRENT LIABILITIES		**64,329**	79,811
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**–**	215
Other payables and accruals		**1,223**	1,512
Total non-current liabilities		**1,223**	1,727
Net assets		**63,106**	78,084
EQUITY			
Share capital		**8,000**	8,000
Reserves		**55,106**	70,084
Total equity		**63,106**	78,084

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 high performance 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 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.

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 2018. 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 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and Amendments to HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on the financial statements of the Group.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The adoption of the hedge accounting requirements of HKFRS 9 has had no impact on the Group's financial statements as the Group does not have any hedging instruments.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

Upon the adoption of HKFRS 9, the Group reclassified its available-for-sale investment to financial asset at FVPL and reclassified the cumulative unrealised loss arising from the changes in fair value of the available-for-sale financial asset before the adoption of HKFRS 9 of HK$825,000 from "available-for-sale investment revaluation reserve" to "accumulated losses". Financial assets classified as loans and receivables under HKAS 39 were reclassified as financial assets at amortised cost under HKFRS 9. No impact of classification and measurement of financial liabilities was noted as at 1 January 2018.

Impairment

The Group has re-measured its opening impairment allowances for trade receivables under HKAS 39 from HK$112,000 to HK$427,000 of ECL allowances under HKFRS 9 as at 1 January 2018, which resulted in an increase of HK$285,000 in accumulated losses and an increase of HK$30,000 in deferred tax assets.

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018. Upon the adoption of HKFRS 15, the Group reclassified the advanced payments from customers to "Contract liabilities" within the account "Other payables and accruals", which were reclassified as "Advances from customers" within the account "Other payables and accruals". The amendments have had no other impact on the financial position or performance of the Group.

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	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Other than explained below regarding the impact of HKFRS 16, the Group expects that the adoption of the above new and revised standards will have no significant impact on these financial statements.

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 recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be 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 the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK$4,384,000 and lease liabilities of HK$5,827,000 will be recognised at 1 January 2019.

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

	2018	2017
	HK$'000	*HK$'000*
Mainland China	**39,056**	36,995
Overseas	**21,995**	27,759
Hong Kong	**3,459**	9,617
	64,510	74,371

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

(b) Non-current assets

	2018	2017
	HK$'000	*HK$'000*
Mainland China	**11,782**	8,671
Hong Kong	**230**	396
	12,012	9,067

The non-current asset information is based on the locations of the assets and excludes deferred tax assets, 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$19,043,000 (2017: HK$20,932,000) was derived from sales to a single customer.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Sales of goods	**64,510**	74,371

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	Industrial products
	HK$'000
Type of goods	
Sewing threads and garment accessories	**64,510**
Geographical markets	
Mainland China	**39,056**
Overseas	**21,995**
Hong Kong	**3,459**
Total revenue from contracts with customers	**64,510**
Timing of revenue recognition	
Goods transferred at a point in time	**64,510**

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:

	2018
	HK$'000
Sales of goods	**39**

(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 sewing threads and garment accessories and payment is generally due within 30 to 90 days from delivery, except for certain customers where payment in advance is required.

	2018	2017
	HK$'000	*HK$'000*
Other income and gains		
Gross rental income	**741**	622
Fair value gains, net:		
Financial asset at FVPL	**158**	–
Exchange gains, net	**1,126**	–
Bank interest income	**12**	–
Gains on disposal of items of property, plant and equipment	**–**	20
	2,037	642

5. LOSS BEFORE TAX

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

	Note	2018 *HK$'000*	2017 *HK$'000*
Cost of inventories sold		**51,232**	48,853
Depreciation		**668**	307
Recognition of prepaid lease payments for buildings		**486**	330
Minimum lease payments under operating leases:			
Land and buildings and office equipment		**2,019**	1,872
Auditor's remuneration		**1,780**	1,280
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		**14,926**	13,283
Pension scheme contributions		**3,541**	1,217
Severance payments***		**234**	663
		18,701	15,163
Listing expenses*		**–**	18,547
Fair value gains, net:			
Financial asset at FVPL		**(158)**	–
Foreign exchange (gains)/losses, net**		**(1,126)**	1,419
Losses/(gains) on disposal of items of property, plant and equipment**		**603**	(20)
Bank interest income	*4*	**(12)**	–
Impairment of trade receivables		**499**	130
Impairment of non-financial assets**		**913**	–

* The listing expenses are included in "Other expenses" in the consolidated statement of profit or loss.

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

*** The severance payments are included in "Administrative expenses" in the consolidated statement of profit or loss.

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% on the estimated assessable profits arising in Hong Kong during the years ended 31 December 2018 and 2017.

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.

	2018	2017
	HK$'000	*HK$'000*
Current — Hong Kong and Mainland China	**209**	396
Deferred	**(1,760)**	316
	(1,551)	712

7. DIVIDENDS

No dividend was proposed by the Group for the years ended 31 December 2018 and 2017.

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

	2018	2017
	HK cents	*HK cents*
Loss per share attributable to ordinary equity holders of the parent — Basic and diluted	**1.36**	2.16

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:

	2018	2017
	HK$'000	*HK$'000*
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	**10,855**	13,190

	2018	2017
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	**800,000,000**	609,315,068

The calculation of the weighted average number of ordinary shares is as follows:

	2018	2017
Issue of shares on 1 January	**800,000,000**	1
Effect of capitalisation issue	**–**	599,999,999
Effect of initial public offering on the Listing Date	**–**	9,315,068
Weighted average number of ordinary shares	**800,000,000**	609,315,068

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during those years.

9. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**18,152**	25,012
Impairment	**(711)**	(112)
	17,441	24,900

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 44% (2017: 61%) of the trade receivables were derived from five customers as at 31 December 2018. The trade receivables from such customers 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:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**5,682**	16,428
1 to 2 months	**7,771**	4,113
2 to 3 months	**1,624**	664
Over 3 months	**2,364**	3,695
	17,441	24,900

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:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**1,930**	2,620
1 to 2 months	**1,085**	1,200
2 to 3 months	**679**	1,045
Over 3 months	**1,428**	4,404
	5,122	9,269

The trade payables are unsecured, non-interest-bearing and are normally settled in 30 to 90 days, extending to longer periods for those long standing suppliers.

11. INTEREST-BEARING BANK BORROWINGS

	2018		
	Effective interest rate (%)	**Maturity**	***HK$'000***
Current			
Bank loans — secured	**4.6 to 6.2**	**On demand**	**15,217**

	2017		
	Effective interest rate (%)	Maturity	*HK$'000*
Current			
Bank loans — secured	3.8 to 6.0	On demand	22,627

Analysed into:

	2018	2017
	HK$'000	*HK$'000*
Bank loans and overdrafts repayable on demand	**15,217**	22,627

Interest-bearing bank borrowings are denominated in:

	2018	2017
	HK$'000	*HK$'000*
HK$	**7,000**	15,006
United States Dollar ("US$")	**8,217**	7,621
	15,217	22,627

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 loans of the Group in the amount of HK$15,217,000 (2017: HK$22,627,000) include a repayment on demand clause under the relevant loan agreements, among which balances amounting to HK$3,190,000 (2017: HK$2,753,000) that are repayable after one year from 31 December 2018 have been classified as current liabilities. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable on demand.

(b) As at 31 December 2018, the Group was not in compliance with certain financial loan undertakings and the respective bank loans of HK$15,217,000 would become callable on demand. No further reclassification is needed regarding these bank loans since they all included the repayment on demand clause and have already been classified as current liabilities as mentioned above in (a).

(c) The Group's bank facilities (including overdraft facilities) amounted to HK$20,445,000 (2017: HK$29,637,000), of which HK$15,217,000 (2017: HK$22,627,000) had been utilised as at 31 December 2018.

(d) The following assets were pledged as security for interest-bearing bank borrowings:

	Carrying amounts	
	2018	2017
	HK$'000	*HK$'000*
Available-for-sale investment	**–**	4,474
Financial asset at FVPL	**4,632**	–
Trade receivables	**7,355**	12,593
Pledged deposits	**–**	9,000
	11,987	26,067

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The Group is principally engaged in the manufacturing and selling of sewing threads. 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 People's Republic of China (the "**PRC**"), Hong Kong as well as overseas countries, including United Arab Emirates ("**UAE**"), Mauritius, Australia, Germany 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 2018, the Group's revenue decreased by approximately 13.3% as compared with that for the year ended 31 December 2017. The gross profit margin decreased to approximately 20.6% for the year ended 31 December 2018 from approximately 34.3% for the preceding year. The decrease was mainly attributable to the decrease in sales to the overseas and Hong Kong markets, which accounted for approximately 39.5% of the Group's total revenue for the year ended 31 December 2018.

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 2018, 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 2018.

	Year ended 31 December				
	2018		2017		Rate of
		% of total		*% of total*	change
	HK$'000	***revenue***	*HK$'000*	*revenue*	%
PRC	**39,056**	**60.5**	36,995	49.8	5.6
Overseas *(Note)*	**21,995**	**34.1**	27,759	37.3	(20.8)
Hong Kong	**3,459**	**5.4**	9,617	12.9	(64.0)
	64,510	**100.0**	74,371	100.0	(13.3)

Note: For the two years ended 31 December 2018, the Group exported its products to countries including but not limited to UAE, Mauritius, Australia, Germany 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 2018:

	Year ended 31 December				
	2018		2017		Rate of
		% of total		*% of total*	change
	HK$'000	***revenue***	*HK$'000*	*revenue*	%
100% spun polyester sewing threads	**55,764**	**86.4**	68,369	91.9	(18.4)
Other threads *(Note)*	**8,746**	**13.6**	6,002	8.1	45.7
	64,510	**100.0**	74,371	100.0	(13.3)

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

The Group's revenue decreased to approximately HK$64.5 million for the year ended 31 December 2018 from approximately HK$74.4 million for the year ended 31 December 2017, representing a decrease of approximately 13.3%. Such decrease was mainly due to the decrease in sales to the overseas and Hong Kong market, which accounted for approximately 39.5% of the total revenue for the year ended 31 December 2018.

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 increased to approximately HK$51.2 million for the year ended 31 December 2018 from approximately HK$48.9 million for the year ended 31 December 2017, representing an increase of approximately 4.9%. The Group's cost of sales increased for the year ended 31 December 2018 mainly as a result of the increase in processing fees and the cost of raw materials.

Gross profit and gross profit margin

The Group's gross profit margin decreased to approximately 20.6% from 34.3% for the year ended 31 December 2017, which was a result of the increase in processing fees and cost of raw materials.

The Group's gross profit decreased to approximately HK$13.3 million for the year ended 31 December 2018 from approximately HK$25.5 million for the year ended 31 December 2017, representing a decrease of approximately 48.0%. The decrease was mainly a result of the aforesaid decrease in revenue and decrease in gross profit margin.

Other losses, net

The Group recorded other losses, net of approximately HK$0.3 million for the year ended 31 December 2018 as compared with other losses, net of approximately HK$19.4 million for the year ended 31 December 2017, representing a decrease of approximately 98.7%. Such decrease was mainly attributable to the increase in exchange gains and absence of listing expenses during the year ended 31 December 2018.

Selling and distribution expenses

Selling and distribution expenses mainly consist of staff costs and transportation expenses. Selling expenses increased to approximately HK$7.6 million for the year ended 31 December 2018 from approximately HK$6.4 million for the year ended 31 December 2017. Such increase was mainly due to the increase in staff cost as a result of the raise in average salary.

Administrative expenses

Administrative expenses primarily consist of staff costs, Directors' remuneration and legal and professional fees. Administrative expenses increased to approximately HK$16.5 million for the year ended 31 December 2018 from approximately HK$9.8 million for the year ended 31 December 2017, representing an increase of approximately 67.4%. Such increase was mainly attributable to the increase in Directors' remuneration, office expenses and legal and professional fees.

Listing expenses

For the year ended 31 December 2018, the Group did not recognise any non-recurring listing expenses in the consolidated statement of profit or loss. Alternatively, Listing expenses of approximately HK$18.5 million were recorded in the Group's consolidated statement of profit or loss for the year ended 31 December 2017.

Finance costs

The Group's finance costs decreased to approximately HK$0.9 million for the year ended 31 December 2018 from approximately HK$2.3 million for the year ended 31 December 2017, representing a decrease of approximately 61.3%. Such decrease was mainly a result of the repayment of bank loans during the year ended 31 December 2018.

Loss before income tax

As a result of the aforesaid, the Group recorded a loss before income tax of approximately HK$12.4 million for the year ended 31 December 2018, representing a decrease of approximately 0.6% from approximately HK$12.5 million for the year ended 31 December 2017.

Income tax credit/(expenses)

The Group recorded income tax expenses of approximately HK$0.7 million for the year ended 31 December 2017 while income tax credit of approximately HK$1.6 million was recorded for the year ended 31 December 2018. The Group's effective tax rate increased from approximately negative 5.6% for the year ended 31 December 2017 to approximately 12.5% for the year ended 31 December 2018, which was a result of the absence of non-deductible Listing expenses for the year ended 31 December 2018.

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$14.7 million for the year ended 31 December 2018 from approximately HK$8.1 million for the year ended 31 December 2017, representing an increase of approximately 82.5%. Such increase was mainly due to the Group having recorded other comprehensive loss of approximately HK$3.8 million arising from exchange differences on translation of foreign operations for the year ended 31 December 2018 as opposed to other comprehensive income of approximately HK$5.0 million for the year ended 31 December 2017.

Basic and diluted loss per Share

The Company's basic and diluted loss per Share for the year ended 31 December 2018 was approximately HK1.36 cents (2017: HK2.16 cents), representing a decrease of approximately 37.0%, which was mainly due to the decrease in loss attributable to the owners of the parent and increase in the weighted average number of shares.

Final dividend

The board did not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

Liquidity and Financial Resources

For the year ended 31 December 2018, the Group's operations were primarily financed through its 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$30.9 million and approximately HK$57.9 million as at 31 December 2018 and 2017, respectively. The functional currency of the Group is the Hong Kong dollar. As at 31 December 2018, 92.8% of the Group's cash and bank balances were denominated in the Group's functional currency (31 December 2017: 96.4%) and the remaining 7.2% (31 December 2017: 3.6%) in other currencies, mainly the Renminbi.

As at 31 December 2018 and 2017, the Group had net current assets of approximately HK$40.4 million and approximately HK$64.9 million, respectively, which included trade receivables, prepayments, other receivables and other assets, inventories, cash and cash equivalents and pledged deposits. The Group's current ratio remained relatively stable and slightly increased from approximately 2.3 as at 31 December 2017 to approximately 2.4 as at 31 December 2018. The Group's bank borrowings decreased from approximately HK$22.6 million as at 31 December 2017 to approximately HK$15.2 million as at 31 December 2018. Such decrease was mainly due to the decrease in the Group's financing need after its listing on 15 December 2017.

Gearing Ratio

The Group's gearing ratio is calculated based on net debt (including interest-bearing bank borrowings, trade payables and other payables and accruals, less cash and cash equivalents) divided by the total equity plus net debt at the respective reporting date. The gearing ratio was not applicable to the Group as at 31 December 2018 and 2017 as its cash and bank balances were more than its bank borrowings. The Group believes that the cash at banks and the bank borrowings provide adequate liquidity to satisfy the Group's funding requirements.

Commitments

The Group's operating lease commitments were primarily related to leases of land and buildings and office equipment. As at 31 December 2018, the Group had commitments for future minimum lease payments under operating leases, which fall due as follows:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Within one year	**2,599**	1,930
In the second to fifth years, inclusive	**5,902**	6,485
After five years	**–**	884
	8,501	9,299

As at 31 December 2018, other than the above-mentioned operating lease commitments, the Group did not have any significant capital commitments (as at 31 December 2017: HK$6.6 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 2018, 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 2018, the Group did not hold any significant investments (as at 31 December 2017: Nil).

Material Acquisitions or Disposals of Subsidiaries and Affiliated Companies

During the year ended 31 December 2018, 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 2018, the Group did not have material contingent liabilities (as at 31 December 2017: 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 2018 and 2017, the following assets were pledged to banks to secure certain banking facilities granted to the Group:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Financial asset at FVPL	**4,632**	–
Available-for-sale investment	**–**	4,474
Trade receivables	**7,355**	12,593
Pledged deposits	**–**	9,000
	11,987	26,067

Employees and Remuneration Policies

As at 31 December 2018, the Group employed a total of 184 employees (as at 31 December 2017: 178), of whom 173 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 2018, the Group's total staff costs (excluding Directors' emoluments) amounted to approximately HK$15.2 million and HK$18.7 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 such as birthday celebrations.

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 2018, 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 2018, the unutilised Net Proceeds amounted to approximately HK$29.1 million.

As at 31 December 2018, the Net Proceeds had been applied and utilised as follows:

	Net Proceeds available *HK$ million*	**Utilised** *HK$ million*	**Unutilised** *HK$ million*
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

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 2018:

Business strategy	Implementation plan	Actual progress as at 31 December 2018
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 our 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 two 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 leased premises in Zhejiang Province for its sales office and the renovation has been completed.
Acquiring new cone winding machines	— Order two cone winding machines to facilitate our production lines for 100% spun polyester sewing threads and paying the balance for two cone winding machines	The Group has ordered 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. In light of the protectionist trade measures implemented by the United States and the recent economic downturn, the Directors believe that by strictly adhering to the implementation plan set out in the Prospectus, the production capacity of the Group will be unnecessarily enhanced, while the additional machinery may lead to a provision for impairment for such machinery to be made in the future.

The Group places much emphasis on satisfying customers' needs in respect of high quality and product differentiation and thus has been maintaining 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 demands and to take advantage of the business opportunities in the sewing threads industry, the Group will not deviate from the expansion plans set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The Directors intend for the expansion plans to be implemented in a prudent and conservative manner with consideration 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 become feasible for the operation of the Group, the plans may be evaluated and modified so as to ensure that the Group's business strategies are in the best interests of the Company and its shareholders as a whole.

OTHER INFORMATION

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 of the Company 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 2018.

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 2018.

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 2018 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 2018 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 competes 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 2018 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.

Resignation of the Compliance Adviser

In compliance with rule 6A.19 of the GEM Listing Rules, the Company had appointed Huabang Corporate Finance Limited ("**Huabang**") to be the compliance adviser. On 28 February 2019, Huabang and the Company mutually agreed to terminate the aforesaid appointment. As at the date of this announcement, the Company is searching for a replacement compliance adviser pursuant to Rule 6A.27 of the GEM Listing Rules and will make the appropriate announcement as soon as the replacement compliance adviser has been appointed. In any event, the appointment of a replacement compliance adviser will occur within three months of the date of termination of Huabang as the Company's compliance adviser.

Events after the Year Ended 31 December 2018

The Board is not aware of any material event requiring disclosure that had taken place subsequent to 31 December 2018 and up to the date of this announcement.

Sufficiency of Public Float

The Directors confirm that during the year ended 31 December 2018 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), Mr. 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 2018.

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 2018 containing all the information required by the GEM Listing Rules will be published on the respective websites of the Company and the Stock Exchange 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 2018 as set out in this preliminary announcement have been agreed by the Group's independent auditor, Ernst & Young, certified public accountants of Hong Kong ("**Ernst & Young**"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standard 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 Ernst & Young 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, 10 May 2019 at United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, 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 Tuesday, 7 May 2019 to Friday, 10 May 2019, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Monday, 6 May 2019.

By order of the Board
Shen You Holdings Limited
Wong Kwok Wai, Albert
Chairman, chief executive officer and executive Director

Hong Kong, 26 March 2019

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Wong Kwok Wai, Albert and Mr. Yu Miaogen; two non-executive Directors, namely Mr. Gao Biao and Mr. Shi Guixiang; 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.shenyouholdings.com.