神冠
SHENGUAN

SHENGUAN HOLDINGS (GROUP) LIMITED
神冠控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00829)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Financial highlights		
Revenue	**980.6**	1,054.6
Gross profit	**293.1**	465.9
Profit before tax	**155.2**	337.1
Income tax expense	**(21.6)**	(51.6)
Profit attributable to owners of the Company	**154.2**	291.4
Basic earnings per share, (RMB cents per share)	**4.7**	8.9
Diluted earnings per share, (RMB cents per share)	**4.7**	8.9
Financial ratios		
Gross profit margin	**29.9%**	44.2%
Net profit margin	**15.7%**	27.6%

The board (the “Board”) of directors (the “Directors”) of Shenguan Holdings (Group) Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, “Shenguan” or the “Group”) for the year ended 31 December 2016 (the “Year” or the “Period”), which have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The 2016 consolidated annual results of the Group have been reviewed by the audit committee of the Company and approved by the Board on 17 March 2017. The Board is pleased to propose a final dividend of HK2.0 cents per share and a special final dividend of HK1.0 cents per share.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	4	**980,617**	1,054,565
Cost of sales		**(687,542)**	(588,713)
Gross profit		**293,075**	465,852
Other income and gains, net	4	**88,473**	41,016
Selling and distribution expenses		**(32,506)**	(11,660)
Administrative expenses		**(177,898)**	(140,372)
Finance costs, net	5	**(15,927)**	(17,700)
PROFIT BEFORE TAX	6	**155,217**	337,136
Income tax expense	7	**(21,565)**	(51,558)
PROFIT FOR THE YEAR		**133,652**	285,578
OTHER COMPREHENSIVE INCOME			
Other comprehensive income may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(21,401)**	(12,493)
NET OTHER COMPREHENSIVE INCOME MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(21,401)**	(12,493)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**112,251**	273,085
Profit attributable to:			
Owners of the Company		**154,163**	291,390
Non-controlling interests		**(20,511)**	(5,812)
		133,652	285,578

	Note	2016 RMB'000	2015 RMB'000
Total comprehensive income attributable to:			
Owners of the Company		**132,762**	278,897
Non-controlling interests		**(20,511)**	(5,812)
		112,251	273,085
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	*9*		
Basic (RMB cents per share)		**4.7**	8.9
Diluted (RMB cents per share)		**4.7**	8.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,351,345**	1,310,261
Investment properties		**7,342**	–
Prepaid land lease payments		**118,863**	122,619
Goodwill		**22,760**	47,486
Other intangible assets		**191,219**	242,924
Available-for-sale investment		**37,100**	37,100
Deferred tax assets		**42,973**	56,326
Long term prepayments		**13,318**	15,642
Total non-current assets		**1,784,920**	1,832,358
CURRENT ASSETS			
Financial asset at fair value through profit or loss		**18,078**	353
Inventories		**794,845**	921,958
Trade and bills receivables	*10*	**215,220**	181,904
Prepayments, deposits and other receivables		**115,766**	191,920
Pledged deposits		**456,000**	354,727
Cash and cash equivalents		**119,016**	210,784
Total current assets		**1,718,925**	1,861,646
CURRENT LIABILITIES			
Trade and bills payables	*11*	**65,335**	42,726
Other payables and accruals		**104,108**	114,067
Interest-bearing bank and other borrowings		**343,563**	544,545
Tax payable		**3,928**	9,985
Total current liabilities		**516,934**	711,323
NET CURRENT ASSETS		**1,201,991**	1,150,323
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,986,911**	2,982,681

	Note	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Deferred income		**29,980**	32,663
Deferred tax liabilities		**61,655**	79,523
Total non-current liabilities		**91,635**	112,186
Net assets		**2,895,276**	2,870,495
EQUITY			
Equity attributable to owners of the company			
Issued capital	*12*	**28,060**	28,135
Reserves		**2,795,637**	2,752,614
		2,823,697	2,780,749
Non-controlling interests		**71,579**	89,746
Total equity		**2,895,276**	2,870,495

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1 BASIS OF PRESENTATION

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 investment properties and financial asset at fair value through profit or loss which has been measured in fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

   (i) the materiality requirements in HKAS 1;
   (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
   (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
   (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

   Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of the manufacture and sale of edible collagen sausage casing products. The Group also involves in the manufacture and sale of pharmaceutical products, food products, skin care and health care products and bioactive collagen products.

Since over 90% of the Group's revenue is generated by its edible collagen sausage casing products, no operating segments have been aggregated to form the above reportable operating segment.

Information about geographical areas

Geographical information is not presented since over 90% of the Group's revenue is derived from external customers based in the PRC and over 90% of the Group's non-current assets are located in the PRC. Accordingly, in the opinion of directors of the Company, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

Information about a major customer

For the year ended 31 December 2016, revenue generated from a customer of the Group, excluding value added tax, amounting to RMB275,805,000 (2015: RMB343,616,000) has individually accounted for over 10% of the Group's total revenue.

4. **REVENUE, OTHER INCOME AND GAINS**

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and the value of service rendered during the year.

An analysis of revenue, other income and gains is as follows:

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**980,326**	1,054,366
Service income	**291**	199
	980,617	1,054,565
Other income		
Bank interest income	**22,556**	22,326
Sale of dried meat products	**630**	972
Government grants	**5,429**	5,912
Return received from contract in progress	**25,643**	–
Others	**1,057**	1,773
	55,315	30,983
Gains		
Foreign exchange gain, net	**14,275**	–
Gain on disposal of financial assets at fair value through profit or loss	**856**	10,033
Gain on disposal of prepaid land lease	**302**	–
Change in fair value of an financial asset at fair value through profit or loss	**17,725**	–
	33,158	10,033
Total other income and gains	**88,473**	41,016

5. **FINANCE COSTS, NET**

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans	**17,826**	20,299
Arrangement fee	**–**	2,684
Less: Government grants	**(1,899)**	(5,283)
	15,927	17,700

6. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**143,279**	104,603
Retirement benefit contributions	**30,739**	40,960
	174,018	145,563
Auditor's remuneration	**2,100**	2,187
Cost of inventories sold	**670,418**	588,713
Depreciation	**94,843**	96,257
Amortisation of prepaid land lease payments	**3,004**	2,984
Impairment of goodwill	**24,726**	1,804
Amortisation of other intangible assets	**51,705**	15,604
Minimum lease payments under operating leases	**1,348**	1,168
Loss on disposal of items of property, plant and equipment, net	**13**	23,797
Impairment of trade and bills receivables	**6,596**	4,847
Write-off of inventories	**13,026**	–
Provision against obsolete and slow-moving inventories	**4,098**	–
Foreign exchange differences, net	**(14,275)**	12,049
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties	**7**	–

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan") and Wuzhou Shensheng Collagen Products Co., Ltd., being the Company's wholly-owned subsidiaries, are located in Wuzhou, Guangxi in the Western Region of China and are subject to the region's preferential corporate income tax ("CIT") rate of 15% as set out in the Notice of the Ministry of Finance and the General Administration of Custom and the State Administration of Taxation on Tax Policy Issues Concerning Further Implementing the Western China Development Strategy (Cai Shui [2011] No. 58).

	2016	2015
	RMB'000	*RMB'000*
Current – PRC	**24,781**	69,488
Current – Hong Kong		
Charge for the year	**1,319**	1,612
Overprovision in prior years	**–**	(16)
Deferred tax	**(4,535)**	(19,526)
Total tax charge for the year	**21,565**	51,558

8. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Final dividend proposed subsequent to the reporting period – HK2.0 cents (2015: HK3.2 cents) per ordinary share	**57,844**	87,151
Final special dividend proposed subsequent to the reporting period – HK1.0 cent (2015: Nil) per ordinary share	**28,922**	–
	86,766	87,151

The final dividend and special dividend for the year ended 31 December 2016 proposed subsequent to the reporting period have not been recognised as a liability at the end of the reporting period and are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB154,163,000 (2015: RMB291,390,000) and the weighted average number of 3,259,850,000 ordinary shares (2015: 3,283,494,000) in issue during the year.

The calculation of diluted earnings per share amount for the year ended 31 December 2015 is based on the profit for the year attributable to ordinary owners of the company of RMB291,390,000. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 274,000 assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2016.

10. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**197,328**	185,575
Bills receivable	**45,094**	17,309
Due from a related company	**2,730**	2,356
	245,152	205,240
Impairment	**(29,932)**	(23,336)
	215,220	181,904

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months for certain customers.

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

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**160,296**	170,640
3 to 4 months	**40,054**	3,744
Over 4 months	**14,870**	7,520
	215,220	181,904

11. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	**29,575**	32,411
1 to 2 months	**4,886**	2,090
2 to 3 months	**9,642**	1,016
Over 3 months	**21,232**	7,209
	65,335	42,726

The trade and bills payables are non-interest-bearing and are normally settled on terms of range from 60 days to 180 days.

12. SHARE CAPITAL

	2016	2015
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,259,276,000 (2015: 3,268,276,000) ordinary shares of HK$0.01 each	**32,593**	32,683
Equivalent to RMB'000	**28,060**	28,135

A summary of movements in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares *HK$'000*	Share premium *HK$'000*	Equivalent nominal value of ordinary shares *RMB'000*	Equivalent share premium *RMB'000*	Equivalent total *RMB'000*
1 January 2015	3,304,016,000	33,041	652,227	28,425	635,828	664,253
Cancellation of share repurchased	(37,100,000)	(371)	(54,364)	(301)	(43,732)	(44,033)
Share options exercised	1,360,000	13	4,017	11	3,210	3,221
Final 2014 dividend	–	–	(134,904)	–	(106,307)	(106,307)
At 31 December 2015 and 1 January 2016	3,268,276,000	32,683	466,976	28,135	488,999	517,134
Cancellation of share repurchased	(9,000,000)	(90)	(9,193)	(75)	(7,668)	(7,743)
Final 2015 dividend	–	–	(104,297)	–	(88,211)	(88,211)
At 31 December 2016	3,259,276,000	32,593	353,486	28,060	393,120	421,180

13. EVENT AFTER THE REPORTING PERIOD

On 13 March 2017, the Group entered into an equity transfer agreement with Guangxi Shenguan Investment Limited ("Guangxi Shenguan"), a company controlled by Ms. Zhou Yaxian ("Ms. Zhou"), an executive director and a controlling shareholder of the Company, pursuant to which Guangxi Shenguan agreed to dispose of and the Group agreed to acquire 5% equity interest of Ferguson (Wuhan) Biotech Company Limited ("Ferguson"), 15% equity interests of which was owned of the Group as at year ended 31 December 2016, at a consideration of RMB13,380,000.

On the same date, the Group entered into an capital increase agreement with Guangxi Shenguan, Gobitech Limited, an independent third party, and Guangxi Guan Yu Zhiye Limited ("Guangxi Guan Yu"), a company controlled by Ms. Zhou, pursuant to which the Group agreed to make a capital contribution of RMB17,843,900 to Ferguson by cash.

Upon completion of the above transactions, the equity interest attributable to the Group in Ferguson will increase from 15% to 25%.

Details of the transactions are set out in the Company's announcement dated 13 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

The Brexit and the change of administration in the United States have brought about changes to the international political landscape in 2016 (the "Year") which posed an effect on both international business activities and consumers' confidence. Faced with the complicated domestic and overseas economic environment, China's domestic economy continued to see downward pressure. During the Year, China's gross domestic product (GDP) recorded a year-on-year increase of 6.7 per cent, or 0.2 percentage points lower as compared with the year ended 31 December 2015 (the "Prior Year").

The meat market in China stayed weak. Meat production during the Year has seen negative growth as compared with the Prior Year. According to the National Bureau of Statistics, the output of fresh pork, beef, mutton and poultry decreased by 1.1 per cent year-on-year to 83.64 million tons in 2016, in which pork production was 52.99 million tons, representing a decline of 3.4 per cent.

Despite a steady growth in domestic industrial production, due to the slowing economic growth and the competition was still keen in the market of collagen sausage casing, overseas sausage casing manufacturers continued in growing their sales in China, small-scale domestic collagen sausage casing manufacturers kept selling products at low prices, leading to a decline of average selling price of collagen sausage casing products.

Business Reviews

To deal with the current economic situation and market environment, the Group has focused on the mission of "de-stocking, lowering costs and maintaining quality" during the Year, and proactively studied and established a management model for the Group, vigorously pushed ahead the establishment of a marketing system and tried to reduce finished goods inventories, reduce production costs and further stabilize and enhance collagen sausage casing product applicability. Meanwhile, the Group has embarked collagen-based product diversification. During the new products launch ceremony held in Guangzhou in October 2016, the Group officially launched its consumer products – "Meday" Collagen Chips and "COLL-FULL" Collagen Piece Facial Masks, which were officially available for sales since December 2016.

During the Year, the Group recorded a double-digit growth in the sales volume of collagen sausage casings, but it was insufficient to offset the decrease in price. Consumer products of collagen chips and collagen masks have commenced sales at the end of this Year, however their contributions to revenue are still insignificant. The Group's revenue for the Year decreased by approximately 7.0% to approximately RMB980.6 million.

The Group has seen progress in energy savings, wastage reduction, mechanization, labour force savings and strict customer credit monitoring, resulted in a decline in unit operating costs, which partially offset the decrease in average selling price, and successfully kept the company's operation and financial condition stable.

During the Year, the Group has incurred an impairment loss of approximately RMB24.7 million on the goodwill recognized as a result of the acquisition of the 51% interest in Guangdong Victory Biotech Co., Ltd. ("Guangdong Victory") in the second half of 2015, which became one of the major causes of the decrease in the Group's net profit. Such impairment of goodwill was based on discounted cash flow method of income approach, as stated in the valuation report prepared by an independent valuer. The impairment of goodwill was mainly caused by the fact that the establishment of the sales network of medical-grade collagen raw materials of Guangdong Victory was slower than expected and the production permits of some new products which have already passed clinical trials have not been obtained, which resulted in a downward adjustment and delay in achieving the profit as set out in Guangdong Victory's financial forecast. The aforesaid factors also attributed to the fact that the revenue of Guangdong Victory was below the target of RMB20.0 million for the Year as set out in the original plan.

On the other hand, there was an increase in fair value of the put option related to Guangdong Victory which resulted in a gain of approximately RMB17.7 million recognized in other income and gains.

During the Year, profit attributable to shareholders decreased by 47.1% to RMB154.2 million and earnings per share was RMB4.7 cents. The Broad recommended the payment of a final dividend of HK2.0 cents per share and a special final dividend of HK1.0 cents per share. The total dividends for the Year is maintained at a similar level as that for the Prior Year.

Diversification

The Group have obtained production permit for its collagen chips in the fourth quarter of 2016 and the collagen chips were put into production and sales. The collagen wound dressing products developed by Guangdong Victory has completed the clinical trial and has formally applied for the province-level production permit of medical devices (class II) and is preparing for the application of the state production permit of medical devices (class III). As for Ferguson (Wuhan) Biotech Company Limited ("Ferguson Wuhan"), in which the Group owns 15% equity interests, the company increased efforts in boosting sales of nutrition package business and achieved better results. Sales of Ferguson Wuhan for the Year recorded a double-digit growth year-on-year.

The Group had completed the acquisition of a six-storey property in Singapore, which has a gross floor area of approximately 3,400 square meters on each floor. The Group plans to use it for the research and development, production and sale of various new products.

In addition, Wuzhou Zhongguan Testing Technology Services Co., Ltd ("Wuzhou Zhongguan"), a subsidiary of the Group, has commenced to accept external business.

Product Mix

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings, most of which are used for the production of western sausages. Product innovation and diversification by sausage manufacturers continued to create demand for sausage casings of different sizes and fillings.

In order to keep pace with the new trend of the domestic meat product industry, the Group also launched new products that can be applied to more types of sausages fillings to cater for the market. These products are gradually marketed and adopted. At the same time, the Group also made great efforts in enhancing internal management, streamlining production processes and improving efficiency.

After the completion of acquisitions of equity interests in several companies during 2015, the Group has expanded the coverage of its products to the health industry, which include collagen food, collagen skincare products, medical-grade collagen materials and medical products.

Supply of Raw Materials

Cattle's inner skin is a major raw material for collagen sausage casing production. The supply of cattle's inner skin remained stable over the past few years and such situation is expected to remain unchanged in the coming years. During the Year, in response to the market situation, the Group used its bargaining power of bulk purchases to successfully reduce the purchase price of raw materials and effectively controlled the production cost, increasing the competitiveness of the Group's products in the future.

Technological Research & Development

As the largest enterprise utilizing collagen technologies in China, the Group is committed to stepping up the development of collagen technologies, with an aim of establishing a base for the production of safe, reliable and standardized materials required by the health industry. The move will also upgrade and transform the collagen industry and proactively promote the application of collagen in the health industry.

Wuzhou Shenguan, a subsidiary of the Group, was titled as the national-grade "Post-doctoral Research and Development Work Station (博士後科研工作站)" and "Cluster of Collagen Technology Talents in Guangxi (廣西膠原蛋白技術人才小高地)", for which seven professional talents, including three doctors and four postgraduates, were recruited during the Year to enhance the Group's technological development and market expansion capabilities.

In respect of the sausage casing business, as at 31 December 2016, the Group had 47 valid patents granted by the State Intellectual Property Office of China, and 7 patents applications accepted by the relevant authorities were pending for approval.

Quality Control

The Group strictly controls each production step to ensure that its products are at the best quality and comply with all safety requirements.

Wuzhou Zhongguan, a subsidiary of the Group, is able to examine over 200 indicators, including physicochemical indicators such as heavy metals and microelements, pesticide residues, microorganisms and proteins. During the Year, Wuzhou Zhongguan has started to independently undertake third party inspection assignments. It could conduct direct inspection service of various food and relevant products in society and issue officially-recognized inspection reports. Such qualification is going to lay solid foundations for the Group's development into a base of collagen material, thereby promoting the sound development of high-end foods, health care products and medications in the health industry.

The Group's production of collagen sausage casings has passed the assessment of ISO9001:2008 Quality Management System and the certification of ISO22000:2005 Food Safety Management System, and has obtained the QS Food Production Permit. It has also registered with the Food and Drug Administration in the United States for export of sausage casing products to the United States. In addition, the production of all of the Group's sausage casing products have strictly complied with China's national standards (GB14967–94), sausage casing manufacturing industry standards (SB/T10373–2012) and the filed corporate standards (Q/WZSG0001S-2012). All these certifications are the recognition of the Group as a trustworthy product supplier to its customers.

On 23 June 2016, the design, production and sale of Guangdong Victory's medical collagen wound dressing has passed the vetting for its certification by European Union, and obtained the certification of ISO13485: 2003 and EN ISO22442: 2007, with the validity period until 28 February 2019.

Customer Relationship

The Group is committed to developing long-term cooperation relationships based on mutual trust with its business partners and has built a sophisticated customer network. The Group has established its closely-knit yet extensive network of leading manufacturers of processed meat products and sausages, not only for cooperation with enterprises in China, but also with those in various overseas markets, such as South America, Southeast Asia and the United States. During the Year, the Group continued to supply high-quality sausage casing products to a number of renowned food manufacturers in China. The number of domestic customers remained stable.

Financial Analysis

Revenue

Revenue decreased by approximately 7.0% to approximately RMB980.6 million for the Year from approximately RMB1,054.6 million for the Prior Year. Although the sales volume of collagen sausage casing increased by approximately 16.7%, the overall decrease in product price in the industry and the Group's commitment to reduce the inventory level led to the decline in the average selling price.

Cost of sales

Cost of sales increased by approximately 16.8% to approximately RMB687.5 million for the Year from approximately RMB588.7 million for the Prior Year, including provision and write-off of inventory by approximately RMB17.1 million. Had the provision and write-off of inventory excluded, the cost of sales increased by approximately 13.9% to approximately RMB670.4 million for the Year, which was less than the increase in sales volume of 16.7%. The Group has also taken various measures to control production costs per unit.

By taking advantage of the economic downturn of the environment, the Group based on the principle of high quality and low cost to purchase and lowered the cost of supplies purchase. The costs of raw materials increased by approximately 11.0% to approximately RMB259.2 million. In addition, the Group continued to control energy consumption, as the charges for energy increased by approximately 10.9% to approximately RMB153.5 million. The increase in the both fees above was lower than that of the sales volume. The direct labor cost increased by 18.0% to approximately RMB132.2 million.

Gross profit

Gross profit decreased by approximately 37.1% to approximately RMB293.1 million for the Year from approximately RMB465.9 million for the Prior Year. The gross profit margin decreased from 44.2% to 29.9% for the Year. Had the provision and write-off of inventory excluded, the gross profit decreased by approximately 33.4% to approximately RMB310.2 million, with a gross profit margin of 31.6%. The decrease in gross profit margin mainly because of the overall decrease in product price in the industry and reduction of the inventory level by the Group which led to the decline in the average selling price, however the cost saving was unable to fully offset the decline.

Other income and gains

Other income and gains increased by approximately 115.7% to approximately RMB88.5 million for the Year from approximately RMB41.0 million for the Prior Year.

In 2012, the Group entered into a land development investment contract (the "Development Contract") with an independent third party. The costs incurred by the Group in connection with the Development Contract comprised mainly the costs incurred in demolition and relocation and land acquisition compensation fees during the period of land development (the "Contract Costs"). Since the land's auction occurred later than expected, the Group had continuous negotiation with such independent third party on withdrawing from the Development Contract. On 2 March 2016, the Group entered into a settlement agreement with such independent third party, pursuant to which, such independent third party agreed to transfer the land development project from the Group back to such independent third party, and refund the Contract Costs together with the accrued return of 10 per cent per annum. The increase of other income and gains was mainly attributed to the return received from the Development Contract of approximately RMB25.6 million.

On the other hand, there was an increase in fair value of the put option related to Guangdong Victory of, which resulted in a gain of RMB17.7 million recognized in other income and gains.

In addition, a foreign exchange gain of approximately RMB14.3 million was recognized in other income for the Year, which was mainly contributed by the revaluation of an intercompany liability within the Group denominated in Renminbi recorded by a subsidiary in Hong Kong which functional currency is Hong Kong Dollar. According to current accounting standards, given the Group's presentation currency is in Renminbi, the corresponding exchange loss arose when the accounts of the subsidiary in Hong Kong translated into Renminbi was recognized in exchange reserves. In aggregate, there was no effect on the total comprehensive income of the Group relating to the exchange difference of the intercompany balance.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 178.8% from approximately RMB11.7 million for the Prior Year to approximately RMB32.5 million for the Year, mainly due to the increase in marketing costs for the promotion of various new products including the "Meday" Collagen Chips and the "COLL-FULL" Collagen Piece Facial Mask, as well as the increase in wages due to the expansion in sales team. Selling and distribution expenses as a percentage of revenue increased to approximately 3.3% for the Year from approximately 1.1% for the Prior Year.

Administrative expenses

Administrative expenses increased by approximately 26.8% from approximately RMB140.4 million for the Prior Year to approximately RMB177.9 million for the Year.

For the technologies acquired by the Group through the acquisition of Guangdong Victory in August 2015, the intangible assets will be amortized over five years. The related amortization expense was approximately RMB50.8 million for the Year. After deducting the minority interest and deferred taxation of Guangdong Victory, the effect of the related amortization expense on the net profit of the Group was approximately RMB19.4 million.

During the Year, the Group has incurred an impairment loss of approximately 24.7 million on the goodwill recognized as a result of the acquisition of the 51% interest in Guangdong Victory Biotech Co., Ltd. ("Guangdong Victory") in the second half of 2015. The impairment loss of goodwill was mainly caused by the fact that the establishment of the sales network of medical-grade collagen raw materials of Guangdong Victory was slower than expected and the production permits of some new products which have already passed clinical trials have not been obtained, which resulted in a downward adjustment and delay in achieving the profit as set out in Guangdong Victory's financial forecast.

Both factors above which had a relatively material impact on the net profit for the Year were non-cash items and the cash flow of the Group was not affected.

During 2015, the Group disposed of certain non-efficient production lines and equipment, and demolished and reconstructed an old office building, incurred a loss of approximately RMB23.8 million from the disposal of fixed assets. The loss from disposal of fixed assets was approximately RMB13,000 during the Year.

Finance costs

Finance costs decreased by approximately 10.0% to approximately RMB15.9 million for the Year from approximately RMB17.7 million for the Prior Year.

Income tax expenses

Income tax expenses were approximately RMB21.6 million for the Year, as compared to approximately RMB51.6 million for the Prior Year. The Company's major operating subsidiaries, Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan") and Wuzhou Shensheng Collagen Products Co., Ltd. ("Shensheng Collagen") enjoyed a preferential tax treatment because of their location in western China as well as their engagement in industries encouraged by the government policies. The applicable tax rate for Wuzhou Shenguan and Shensheng Collagen was 15%.

The effective tax rates applied to the Group was approximately 15.3% and approximately 13.9% of profit before tax, respectively for the Prior Year and the Year.

Profit attributable to owners of the Company

Due to the aforesaid reasons and adding back the loss attributable to the minority interests of approximately RMB20.5 million, profit attributable to owners of the Company decreased by approximately 47.1% to approximately RMB154.2 million for the Year from approximately RMB291.4 million for the Prior Year.

Liquidity and Capital Resources

Cash and bank borrowings

The Group generally finances its business operations and capital expenditure with internally generated cash flows as well as the bank borrowings provided by its principal banks.

As at 31 December 2016, the cash and cash equivalents together with the pledged deposits amounted to approximately RMB575.0 million, representing an increase of approximately RMB9.5 million from the end of 2015. Among these balances, approximately 96.0% was denominated in Renminbi, and the remaining 4.0% was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 31 December 2016, the total bank borrowings of the Group amounted to approximately RMB343.6 million, representing a decrease of approximately RMB201.0 million (as at 31 December 2015: approximately RMB544.5 million), and all the bank borrowings were wholly repayable within one year. Of which, the total bank borrowings denominated in Renminbi were approximately RMB300.0 million, while the total bank borrowings denominated in Hong Kong dollars were HK$48.7 million (translated to approximately RMB43.6 million).

The Group was in a net cash position (cash and cash equivalents together with pledged deposits less total bank borrowings) of approximately RMB231.4 million as at 31 December 2016, representing an increase of approximately RMB210.5 million as compared to that at the end of 2015. The debt-to-equity ratio was approximately 11.9% as at 31 December 2016 (as at 31 December 2015: approximately 19.0%). The debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Year, the net cash inflow of approximately RMB312.0 million and RMB4.6 million was generated from operating activities and investing activities, respectively, while financing activities utilized approximately RMB309.6 million. The net cash inflow in investment activities was mainly attributable to the cash inflow from the recovery of Contract Costs under the Development Contract and the return generated therefrom, and the cash outflow for the purchase of properties, plants and equipment. The net cash outflow from financing activities was mainly attributable to the combined effects of the repayment of bank borrowing and the new bank borrowings, the payment of 2015 final dividend and the payment of interest.

Financial assets at fair value through profit or loss

Pursuant to an equity transfer agreement in respect of the acquisition of 51% equity interests in Guangdong Victory entered into between the Group and Enneford Industrial Limited ("Enneford Industrial") on 20 July 2015, the Group was granted with a put option, whereby the Group has the discretion to request Enneford to repurchase the 51% equity interest in Guangdong Victory owned by the Group at a consideration of RMB146,880,000 and the capital contribution made by the Group (if any), if the annual sales revenue of Guangdong Victory fails to reach RMB120,000,000 and fails to obtain the production permits of certain products for the year ending 31 December 2020. The put option is exercisable as at the date immediately after 31 December 2020.

The put option is measured at fair value of RMB18.1 million as at 31 December 2016 estimated by an independent valuer by using the binomial option pricing model. The increase in fair value of the put option of RMB17.7 million was recognized in other income and gains for the Year.

Prepayments, deposits and other receivables

As at 31 December 2016, prepayments, deposits and other receivables decreased by approximately RMB76.2 million as compared to that as at the end of 2015, which was mainly due to the recovery of the Contract Costs in the Development Contract of approximately RMB128.1 million during the Year.

Exposure to exchange risks

The Group mainly operates in Mainland China with most of its transactions settled in Renminbi. The assets and liabilities, and transactions arising from the operations are mainly denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the board of directors of the Company believes that the future currency fluctuations will not have any material impact on the Group's operations. The Group had not adopted formal hedging policies.

Capital expenditure

The capital expenditure of the Group during the Year amounted to approximately RMB144.9 million, which was mainly used for the acquisition of property, plant, and equipment, and the capital commitments as at 31 December 2016 amounted to approximately RMB114.8 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2017 amounted to approximately RMB140 million, which will be used for the upgrade and intellectualization of production facilities for sausage casing business, as well as expansion of production facilities of the newly-acquired corporations, and the renovation and addition of equipment for the research and development center in Singapore.

Pledge of assets

As at 31 December 2016, pledged bank deposits amounted to approximately RMB456.0 million in total.

Contingent liabilities

As at 31 December 2016 and up to the date of this announcement, the Group was not aware of any material contingent liabilities.

Significant investments, material acquisitions and disposals of subsidiaries, associated companies and joint ventures

The Group had no significant investments, material acquisitions or disposals of subsidiaries, associated companies or joint ventures during the Year.

Acquisition of Guangdong Victory and Revenue Guarantee

Pursuant to an equity transfer agreement in respect of the acquisition of 51% equity interests in Guangdong Victory entered into between the Group and Enneford Industrial on 20 July 2015, Enneford Industrial guaranteed that the audited revenue of Guangdong Victory for the year ended 31 December 2015 would reach RMB20 million (the "Revenue Guarantee") and the consideration for the acquisition of RMB20 million (the "Third Installment Consideration") shall be paid by the Group to Enneford Industrial within 10 business days upon the fulfillment of the Revenue Guarantee. Given that the Revenue Guarantee was not fulfilled, upon further negotiations, the Group and Enneford Industrial agreed that the Third Installment Consideration shall only be payable by the Group when the accumulated total sales revenue of Guangdong Victory commencing from 1 January 2016 has reached RMB20 million. Up to the date of this announcement, the accumulated total sales revenue of Guangdong Victory commencing from 1 January 2016 has not reached RMB20 million, therefore the Third Installment Consideration has not yet been paid by the Group.

Human resources

As at 31 December 2016, the Group had a total of approximately 3,200 contract employees. During the Year, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB174.0 million (2015: approximately RMB145.6 million). In order to attract and retain high quality talents to ensure smooth operation and to cope with the need of the Group's continuing expansion, the Group offers competitive remuneration packages with reference to the market conditions and individual qualifications and experience.

Subsequent Events

On 13 March 2017, Wuzhou Shenguan entered into an equity transfer agreement with Guangxi Shenguan Investment Limited ("Guangxi Shenguan"), pursuant to which Guangxi Shenguan agreed to dispose of and Wuzhou Shenguan agreed to acquire 5% equity interest of Ferguson Wuhan at a consideration of RMB13,380,000. Upon completion of the equity transfer, Ferguson Wuhan will be owned as to 40%, 20%, 20% and 20% by Guangxi Shenguan, Gobitech Limited, Guangxi Guan Yu Zhiye Limited ("Guangxi Guan Yu") and Wuzhou Shenguan, respectively.

On 13 March 2017, Wuzhou Shenguan entered into a capital increase agreement with Guangxi Shenguan, Gobitech Limited and Guangxi Guan Yu, pursuant to which Wuzhou Shenguan agreed to make a capital contribution of RMB17,843,900 to Ferguson Wuhan by cash, of which RMB5,611,300 will be contributed to the registered capital of Ferguson Wuhan and RMB12,232,600 will be contributed to the capital reserve of Ferguson Wuhan.

Upon completion of the capital increase, (i) the registered capital of Ferguson Wuhan will be increased by approximately 6.67% from RMB84,170,000 to RMB89,781,300; and (ii) Ferguson Wuhan will be held as to 37.5%, 18.75%, 18.75% and 25% by Guangxi Shenguan, Gobitech Limited, Guangxi Guan Yu and Wuzhou Shenguan, respectively.

As at 13 March 2017, (i) Guangxi Shenguan is owned as to 95% by Ms. Zhou Yaxian ("Ms. Zhou"); and (ii) Guangxi Guan Yu is owned as to 88%, 3%, 3% and 3% by Ms. Zhou, Mr. Ru Xiquan ("Mr. Ru"), Mr. Shi Guicheng ("Mr. Shi") and Mr. Mo Yunxi ("Mr. Mo"), respectively. Since Ms. Zhou is an executive Director and a controlling shareholder of the Company, whereas each of Mr. Ru, Mr. Shi and Mr. Mo is an executive Director, each of Guangxi Shenguan and Guangxi Guan Yu is thus a connected person of the Company.

For further details, please refer to the announcement of the Company dated 13 March 2017.

Saved as disclosed above, there was no important events affecting the Group that have occurred since the year ended 31 December 2016.

Major Awards

The Group received various awards in 2016, including "Chairman Quality Award of Guangxi Zhuang Autonomous Region (廣西壯族自治區主席質量獎)", "ILRA (Industry-Learning-Research-Application) Integrated Enterprise of Guangxi Zhuang Autonomous Region (廣西壯族自治區產學研用一體化企業)", "Innovative Enterprise for Executing Performance Excellence Model in Guangxi (廣西實施卓越績效模式先進企業)", "Top 50 Manufacturers of Guangxi (廣西製造企業50強)" and "Top 50 Private Enterprises of Guangxi (廣西民型企業50強)". In addition, the Group maintained its title of a national-level "High-Tech Enterprise", and was also titled as the national-grade "Post-doctoral Research and Development Work Station (博士後科研工作站)" and "Cluster of Collagen Technology Talents in Guangxi (廣西膠原蛋白技術人才小高地)". In respect of the projects, the Group was awarded Third Prize of Guangxi Science and Technology Advancement for the "Development and Application of Heat Pump and Close-cycle Drying Technology to Collagen Casing (膠原蛋白腸衣熱泵及閉式迴圈乾燥技術開發與應用項目)" and Third Prize of Guangxi Science and Technology Advancement for the "Development and Application of Smart Production Information System (智慧製造資訊系統開發與應用項目)". Besides, the Group received the "Innovative Industrial Product of Guangxi Zhuang Autonomous Region Award (廣西壯族自治區工業新產品獎)" for its thin collagen sausage casings.

Prospects and Strategies

Looking forward to 2017, the World Bank expects that the global economic growth will accelerate, but economic policies will remain uncertain. China's economy will continue to face downward pressure, but with a more balanced economic structure. The Central Economic Work Conference stated that 2017 is an important year for implementing the Thirteenth Five-Year plan, and a year to strengthen the supply side structural reform, thus the country's economic policy should follow the general principle of making progress on stable performance, and promote stable, healthy economic development and social harmony.

Recently, the Thirteenth Five-Year Plan promulgated by the government and the relevant departments, which includes the "Thirteenth Five Development Plan on the National Strategic Emerging Industry (「十三五」國家戰略性新興產業發展規劃)" issued by the State Council, the "Thirteenth Five plan on National Science and Technology Innovation (「十三五」國家科技創新規劃)" issued by the State Council, "the Catalogue of Key Products and Services in Strategic Emerging Industries (戰略性新興產業重點產品和服務指導目錄)" issued by The National Development and Reform Commission, and the "Pharmaceutical Industry Development Planning Guide (醫藥工業發展規劃指南)" issued by the Ministry of Industry and Information Technology, have added the collagen biotechnology industry into the list of strategic emerging industries with national support. This provides a favorable opportunity and room for development for the Group's diversification strategy.

Better livelihood, continuously rising consumption and diversified consumer needs will create new market opportunities. The decline of pork consumption in these two years and the fact that China's average pork consumption was still below the level of developed countries implies immense growth potential. It is reported that the number of slaughtered pigs in China has been on an upward trend recently, reversing the originally continuing downward trend, and providing a favorable backdrop for the Group's development. However, labor costs, raw material costs, environmental costs and service costs, etc. will increase, imposing certain pressure on the business operations.

The Group will follow its Thirteenth Five-Year Plan and keep on using its collagen technologies as the core, using its collagen sausage casing business as the foundation, and set collagen-based products such as foods, healthcare products, cosmetic products, medical products and medical materials as the development direction, through automation and knowledge-based measures, to achieve product diversification and explore the health industry and emerging strategic industries, thereby developing Shenguan as a world-class collagen research and development and application base and the largest supplier of collagen raw materials.

The Group will strive to commence the mass production and sale of collagen chips and collagen masks under the brands of “Meday” and “COLL-FULL”, respectively, and further enhance the marketing and sales accordingly for a larger market share. As to Guangdong Victory’s collagen medical products, the Group will obtain province-level production permit of medical devices (class II) and state production permit of medical devices (class III) as soon as possible, and invest more resources into research and development and sales network establishment for a better sales performance.

While adhering to the mission of “de-stocking, adjusting structure, maintaining stable growth” in 2017, the Group will enhance development in setting up the Group’s management model, and sales and marketing system so as to maintain its leading position in the collagen sausage casing market. The Group will also establish a quality control model and introduce stringent quality responsibility system to ensure the quality objectives are achieved. At the same time, the Group will innovate to improve labor productivity per capita, reduce the costs of energy consumption, improve the quality and lower the costs.

In addition, the Group will take into account the effect of climate and sales seasonality in the production management. Based on the evaluation results of the production experience in 2016, the Group will make full use of the abundant production capacity, to formulate annual, monthly and daily production plans. The Group will avoid production during the period with large energy consumption and low production efficiency in summer, and during the higher tariffs period of each day, in order to reduce the energy consumption and improve production efficiency.

The Group will also strengthen its marketing and sales team, especially in the establishment of the marketing team for non-casing new products. The Group will further expand the sales channels of its products, develop sales incentive programme, and enhance customer support, in order to accomplish sales targets.

The Group’s overall operation remained solid, and overall financial status remain sound and healthy. The Group is confident that the above measures will continue to foster its sustainable development, promote the development of collagen sausage casing business, and further widen the application of collagen technology, bringing fruitful return to shareholders in the long term.

OTHER INFORMATION

Dividends

The Directors recommended the payment of a final dividend of HK2.0 cents per ordinary share and a special final dividend of HK1.0 cents per ordinary share for the Year to shareholders whose names appear on the register of members of the Company on 1 June 2017 (Thursday) out of the share premium account of the Company. Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend and the special final dividend will be paid on or around 14 June 2017 (Wednesday).

Closure of Register of Members

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on 22 May 2017 (Monday), the register of members of the Company will be closed from 17 May 2017 (Wednesday) to 22 May 2017 (Monday), both dates inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 16 May 2017 (Tuesday). For determining entitlement to the final dividend and the special final dividend (if approved at the forthcoming annual general meeting), the register of members of the Company will be closed from 26 May 2017 (Friday) to 1 June 2017 (Thursday), both dates inclusive. The record date will be 1 June 2017 (Thursday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 25 May 2017 (Thursday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final and the special final dividends (if approved at the forthcoming annual general meeting), all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the dates and times stated above respectively.

Purchase, Redemption or Sale of Listed Securities of the Company

During the Year, the Company purchased certain of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company. The summary details of the share repurchase during the Year are as follows:

Month	Number of shares repurchased	Number of shares cancelled	Price per share Highest		Total price paid
			Highest	Lowest	
			HK$	*HK$*	*HK$*
January 2016	2,000,000	2,000,000	0.97	0.93	1,917,200

7,000,000 shares repurchased during November and December 2015 and 2,000,000 shares repurchased in January 2016 were cancelled on 27 January 2016.

The purchase of the Company's shares during the Year was effected by the Directors, pursuant to the general mandate granted by the shareholders at the annual general meeting of the Company held in 2015, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

Model Code Set out in Appendix 10 to the Listing Rules

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company has also adopted the Model Code for the members of senior management of the Group.

The Company has made specific enquiry of all Directors and all the Directors have confirmed that they have complied with the Model Code during the Year. Moreover, no incident of non-compliance of the Model Code by the senior management was noted by the Company.

Corporate Governance Code

Save as disclosed below, the Company had complied with all the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules during the Year.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Ms. Zhou Yaxian, who acts as the chairman (the "Chairman") and the president of the Company, is also responsible for overseeing the general operations of the Group. The Company has not appointed any chief executive officer and the daily operations of the Group are delegated to other executive Directors, the management and various department heads. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

The Company understands the importance to comply with code provision A.2.1 of the Code and will continue to consider the feasibility of appointing the chief executive. The Company will make timely announcement if the chief executive has been appointed.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole. The Chairman meets at least annually with the non-executive Directors without the executive Directors being present.

Audit Committee

The audit committee of the Board had reviewed the consolidated annual results of the Group for the Year and considered that the Company had complied with all applicable laws, accounting standards and requirements, and had made adequate disclosure.

By Order of the Board
Shenguan Holdings (Group) Limited
Zhou Yaxian
Chairman

Hong Kong, 17 March 2017

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan and Mr. Mo Yunxi; the non-executive Director is Dato' Sri Low Jee Keong; and the independent non-executive Directors are Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu.