China Shenghai Food Holdings Company Limited
中國升海食品控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1676)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2018

— Revenue for the year increased by 3.7% to RMB668.0 million (2017: RMB644.4 million).
— Profit for the year is RMB76.4 million (2017: RMB70.2 million).
— Earning per Share is RMB0.0764 (2017: RMB0.0812).
— The Board does not recommend the payment of a final dividend in respect of the year (2017: Nil).

The board (the "**Board**") of directors (the "**Directors**") of China Shenghai Food Holdings Company Limited (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 ("**Year 2018**" or the "**Reporting Year**"), together with the comparative figures for the corresponding period in 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Renminbi)

	Notes	2018 HK$'000	2017 HK$'000
Revenue	*4*	**667,958**	644,407
Cost of sales		**(498,864)**	(480,901)
Gross profit		**169,094**	163,506
Other income and other gains/(losses), net	*5*	**2,363**	195
Selling and distribution expenses		**(54,575)**	(23,806)
Administrative expenses		**(11,553)**	(34,912)
Expected credit loss on financial assets	*6*	**(72)**	–
Other expenses		**(842)**	(598)
Profit before income tax	*7*	**104,415**	104,385
Income tax expense	*8*	**(28,001)**	(34,183)
Profit for the year attributable to owners of the Company		**76,414**	70,202
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**547**	(1,719)
Other comprehensive income for the year		**547**	(1,719)
Profit and total comprehensive income for the year attributable to owners of the Company		**76,961**	68,483
Earnings per share – Basic and Diluted *(RMB)*	*10*	**0.0764**	0.0812

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

(Expressed in Renminbi)

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment		**34,913**	130
Deferred tax assets		**281**	–
Prepaid lease payments		**79**	129
Deposits paid to suppliers		**5,616**	6,000
Prepayment for acquisition of plant and equipment		**35,000**	–
		75,889	6,259
Current assets			
Inventories	*11*	**70,306**	41,575
Trade receivables	*12*	**109,942**	97,914
Deposits, prepayments and other receivables		**12,713**	13,967
Cash and cash equivalents		**234,253**	285,243
		427,214	438,699
Current liabilities			
Trade payables	*13*	**39,910**	61,056
Accruals, deposits received and other payables		**7,271**	3,602
Provision for taxation		**8,918**	9,323
		56,099	73,981
Net current assets		**371,115**	364,718
Net assets		**447,004**	370,977
CAPITAL AND RESERVE			
Share capital		**8,723**	8,723
Reserves		**438,281**	362,254
Total equity		**447,004**	370,977

NOTES:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 8 January 2016 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as revised and consolidated) of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 18 July 2017. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is located at 5th floor, No.5 Factory, Mexi Road, Huandong Water, Tongon District, Hui Industrial Park, Xiamen City, Fujian Province, PRC.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries (together with the Company collectively refer to as "**Group**") is packaging and sales of seafood products.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Company is Renminbi ("**RMB**"), which is same as the presentation currency of the consolidated financial statements.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective from 1 January 2018

During the year ended 31 December 2018, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("**new and revised HKFRSs**") issued by the HKICPA, which are effective for the Group's financial year beginning on or after 1 January 2018.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKIFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

A. HKFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 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: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of reserves, retained earnings as of 1 January 2018 as follows (increase/(decrease)):

Retained earnings	*RMB'000*
Retained earnings as at 31 December 2017	189,325
Increase in expected credit losses ("**ECLs**") in trade receivables, loan receivables and deposit paid to suppliers (note 3(a)A(ii) below)	(1,210)
Increase in deferred tax asset of ECLs in trade receivables, loan receivables and deposit paid to suppliers	276
Restated retained earnings as at 1 January 2018	188,391

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss ("**FVTPL**"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "**SPPI criterion**"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	**Original classification under HKAS 39**	**New classification under HKFRS 9**	**Carrying amount as at 1 January 2018 under HKAS 39**	**Carrying amount as at 1 January 2018 under HKFRS 9**
			RMB'000	*RMB'000*
Trade receivables	Loans and receivables	Amortised cost	97,914	97,544
Deposits paid to suppliers	Loans and receivables	Amortised cost	6,000	5,471
Loan receivables	Loans and receivables	Amortised cost	12,604	12,293

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses model" ("**ECL model**"). HKFRS 9 requires the Group to recognised ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. And the Group has elected to measure loss allowance for deposits paid to suppliers and loan receivables using HKFRS 9 general approach. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance as at 1 January 2018 was determined as follows for trade receivables as follows:

1 January 2018	**Current**	**More than 30 days and less than 60 days past due**	**More than 60 days and less than 90 days past due**	**Total**
Expected credit loss rate *(%)*	0.19%	0.75%	1.68%	
Gross carrying amount *(RMB'000)*	65,093	32,595	226	97,914
Loss allowance *(RMB'000)*	(122)	(244)	(4)	(370)

The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 January 2018 were RMB370,000. The loss allowances further increased for RMB67,000 for trade receivables during the year ended 31 December 2018.

(b) Impairment of deposits paid to suppliers and loan receivables

Other financial assets at amortised cost of the Group includes deposits paid to suppliers and loan receivables. Applying the ECL model result in the recognition of ECL of RMB840,000 on 1 January 2018 and a further increased ECL of RMB5,000 for the year ended 31 December 2018.

(iii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

B. *HKFRS 15 Revenue from Contracts with Customers (“**HKFRS 15**”)*

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of products.

C. *Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)*

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

4. REVENUE AND SEGMENT INFORMATION

Revenue is measured based on the consideration specified in a contract with a customer, net of expected goods of returns, discounts and sales related taxes.

Revenue is recognised when performance obligation is satisfied. The Group’s revenue is derived from selling goods with revenue recognised at a point in time when control of the goods has transferred to the customer. This is generally when the goods are delivered to the customer.

Operating segment information

For management purpose, the Group operates in one business unit based on their products, and has one reportable and operating segment: packaging and sales of dried seafood, algae and fungi and seafood snacks. The board of directors of the Company, being the chief operating decision maker, reviews monthly sales reports to determine the selling price of their products and monitors the operating results of its business unit for the purpose of making decisions about resource allocation and performance assessment.

Information about major customers

No customer contributed 10% or more of the Group's revenue during the year ended 31 December 2018. (2017: Nil)

Information about geographical areas

The Group's sales by geographical areas, based on the delivery destination of the goods as requested by the customers, were all domestic and within the PRC.

The Group's non-current assets other than financial instruments mainly represent plant and equipment and prepaid lease payments are located in the PRC.

5. OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	2018	2017
	HK$'000	*HK$'000*
Interest income on bank deposits	**1,069**	575
Interest income on secured loan receivables	**1,242**	68
Loss on disposal of plant and equipment	**(3)**	–
Rental income	**55**	54
Exchange loss	**–**	(649)
Others	**–**	147
Total	**2,363**	195

6. EXPECTED CREDIT LOSS ON FINANCIAL ASSETS

	2018	2017
	HK$'000	*HK$'000*
Impairment loss on trade receivables	**67**	–
Reversal of Impairment loss on deposits paid to suppliers	**(145)**	–
Impairment loss on loan receivables	**150**	–
Total	**72**	–

7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2018	2017
	HK$'000	*HK$'000*
Auditors' remuneration	**914**	934
Amortization of prepaid lease payments	**50**	50
Costs of sales *(Note)*	**498,864**	480,901
Research expenditure	**789**	554
Depreciation of plant and equipment	**2,298**	101
Impairment loss on trade receivables	**67**	–
Reversal of Impairment loss on deposits paid to suppliers	**(145)**	–
Impairment loss on loan receivables	**150**	–
Operating lease rental in respect of:		
Rented premises	**2,424**	1,842
Listing expenses	**–**	16,669
Staff costs (including directors' emoluments)		
Salaries and wages	**30,446**	19,500
Bonus	**182**	9,515
Retirement scheme contribution	**3,381**	2,562

Note: Cost of sales are mainly comprised of cost of inventories recognised as expenses, which amounting to RMB471,546,000 (2017: RMB450,954,000).

8. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

	2018	2017
	HK$'000	*HK$'000*
Current tax		
Tax for the year	**27,384**	33,516
Under-provision in respect of prior year	**612**	667
Deferred tax		
Current year	**5**	–
Total	**28,001**	34,183

Under the Law of the PRC on Enterprise Income Tax ("**EIT**") and Implementation Regulations of the EIT Law, the tax rate of the Company's PRC subsidiaries is 25%.

Provision for the PRC EIT for the year ended 31 December 2018 and 2017 was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable income arising in Hong Kong for the year ended 31 December 2018 and 2017.

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

	2018	2017
	HK$'000	*HK$'000*
Profit before income tax	**104,415**	104,385
Tax thereon at domestic rates applicable to profit or loss in the jurisdictions concerned	**26,539**	28,668
Under-provision in prior year	**612**	667
Tax effect of expenses not deductible for tax purposes	**794**	4,993
Deferred taxation	**5**	–
Others	**51**	(145)
Income tax expense for the year	**28,001**	34,183

9. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

10. BASIC AND DILUTED EARNINGS PER SHARE

	2018	2017
	HK$'000	*HK$'000*
Profits		
Profit attributable to owners of the Company	**76,414**	70,202

	2018	2017
	Number'000	*Number'000*
Number of shares		
Weighted average number of ordinary shares *(note)*	**1,000,000**	864,375

Note: Diluted earnings per share were the same as the basic earnings per share as the Group had no dilutive potential shares during the years ended 31 December 2018 and 2017.

11. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials	**13,752**	20,927
Finished goods	**56,554**	20,648
	70,306	41,575

At 31 December 2018, the carrying amount of inventories carried at the lower of cost and net realisable value amounted to RMB70,306,000 (2017: RMB41,575,000). During the year, no impairment losses has been recognised (2017: nil).

12. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**110,379**	97,914
Less: loss allowance	**(437)**	–
	109,942	97,914

Based on the invoice dates, the ageing analysis of the Group's trade receivables net of impairment provision is as follows:

	2018	2017
	HK$'000	*HK$'000*
0 – 30 days	**73,329**	68,384
31 – 60 days	**34,245**	28,168
61 – 90 days	**2,368**	1,362
	109,942	97,914

The movement in the allowance for impairment of trade receivables is as follows:

	2018
	RMB'000
Carrying amount at 1 January	**–**
Effect of adoption of HKFRS 9	**370**
Carrying amount at 1 January (restated)	**370**
Expected credit losses recognised	**67**
Carrying amount at 31 December	**437**

The directors consider that the carrying amounts of trade receivables approximate their fair values.

13. TRADE PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**39,910**	61,056

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally 30 days. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade payables as at 31 December 2018 and 2017 are as follows:

	2018	2017
	HK$'000	*HK$'000*
0 – 30 days	**39,910**	61,056

The trade payables are short-term and hence the carrying values of the Group's trade payables are considered a reasonable approximate of fair value.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2018. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary results announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

According to the statistics released by the National Bureau of Statistics, the annual GDP in 2018 increased by 6.6% as compared to that in last year. With the steady growth of the economy and the growing consumption power of residents, the upgrade of consumption promoted the rapid growth of the food industry. As one of the well-known branded seafood companies in China, the Group (i) sources high quality raw and processed raw materials, (ii) subcontracts processing of the unprocessed raw materials to third parties, (iii) packages products at its own packaging facilities or through sub-contractors, and (iv) sells packaged products under its own brand "Wofan (沃豐)". The Group also sells dried seafood, algae and fungi without packaging.

During the Reporting Year, the Group's revenue was approximately RMB668.0 million, an increase of approximately 3.7% as compared to the corresponding period of last year of approximately RMB644.4 million. During the Reporting Year, the Group's gross profit and gross profit margin were approximately RMB169.1 million and 25.3%, respectively (approximately RMB163.5 million and 25.4% respectively for the corresponding period of last year).

The Group has a large and broad variety of products, offering 198 products in total, which comprised 101 dried seafood, 33 algae and fungi, and 64 seafood snacks. The Group sold dried seafood, algae and fungi, and seafood snacks in China. The sales of each product were steady during the Reporting Year. The sales volume of frozen products was few and the Group did not renewed the tenancy agreement of the point of sale of frozen products. The operation of the relevant segments was terminated during the Reporting Year. During the Reporting Year, dried seafood was still the largest product category of the Group, accounting for 50.2% of the Group's revenue, which approximated to 50.2% for the corresponding period of last year.

The Group has established complete sales channels during its course of development. The Company's products are sold through supermarkets, trading companies, convenience stores and other sales channels, such as food companies, gift stores and e-commerce retailers. Supermarkets remain to be the largest income source of the Group.

During the Reporting Year, the revenue growth was mainly due to the increase of sales volume as a result of the increasing customer demands. In addition, the selling price per unit increased as the Group has established its brand successfully. The Group believes that customers choose the Group's products mainly attributable to (i) a large volume of supplies of quality raw material and an experienced sales and promotion team as we have 62 suppliers and 372 sales personnel as of 31 December 2018, (ii) the fact that the Group has a wide range of product portfolio and excellent product research and development teams.

In the future's development, the Group will (i) strengthen its existing customer relationships in the existing and new markets, launch new products to cater for consumer demands and extend its further efforts to put forward promotion and marketing measures on Tmall and in the Central Western China; (ii) enhance its packaging capabilities to improve the existing package and design packages that satisfy the requirements of the public. Meanwhile the Group will cooperate with Jimei University to promote the formation of the research and development teams. Furthermore, in order to give new growth drivers, the Company is in the process of studying the possibility of stepping into the financial market by leveraging on its listing status and healthy financial position.

Operating results and financial review

Revenue

During the Reporting Year, the Group's revenue grew approximately 3.7% from approximately RMB644.4 million for the year ended 31 December 2017 to approximately RMB668.0 million for the Reporting Year. The Group has a large and broad variety of products and extensive sales channels. During the Reporting Year, dried seafood is still the largest product category of the Group and supermarkets remain to be the largest income source of the Group. The increase of the revenue was primarily due to (i) the increase in sales volume resulting from the increase of customer demands, (ii) the increase in selling price per unit due to the establishment of its own brand "Wofan (沃豐)".

The table below sets out a breakdown of the Group's revenue categorized by product types during the Reporting Year:

	Year ended 31 December			
	2018	**% to total**	2017	% to total
	RMB'000	**revenue**	*RMB'000*	revenue
Dried seafood	**335,311**	**50.2%**	327,875	50.9%
Algae and fungi	**275,506**	**41.2%**	257,199	39.9%
Seafood snacks	**57,141**	**8.6%**	52,471	8.1%
Frozen seafood	**–**	**–**	6,862	1.1%
Total	**667,958**		644,407	

The table below sets forth the revenue contribution from the Group's sales channels during the Reporting Year:

	Year ended 31 December			
	2018	**% to total**	2017	% to total
	RMB'000	**revenue**	*RMB'000*	revenue
Supermarkets	**354,662**	**53.1%**	335,883	52.1%
Trading companies	**156,538**	**23.4%**	141,615	22.0%
Convenience stores	**30,987**	**4.6%**	31,302	4.9%
Wholesale market for seafood	**–**	**–**	6,862	1.0%
Others	**125,771**	**18.9%**	128,745	20.0%
Food companies	**44,212**	**6.6%**	49,760	7.7%
Gift stores	**39,459**	**5.9%**	34,688	5.4%
E-commerce retailers	**37,630**	**5.7%**	37,675	5.8%
Others	**3,909**	**0.6%**	6,622	1.1%
Self-operated website	**561**	**0.1%**	–	0.0%
Total	**667,958**		644,407	

Gross profit and gross profit margin

Gross profit represents our revenue less our cost of sales, and our gross profit margin represents gross profit divided by revenue, expressed as a percentage. The following table sets forth the gross profit and gross profit margin by product category for the Reporting Year:

	Year ended 31 December			
	2018	**Gross profit margin**	2017	Gross profit margin
	RMB'000	**(%)**	*RMB'000*	(%)
Dried seafood	**84,798**	**25.3%**	82,390	25.1%
Algae and fungi	**71,041**	**25.8%**	66,683	25.9%
Seafood snacks	**13,255**	**23.2%**	12,908	24.6%
Frozen seafood	**–**	**–**	1,525	22.3%
Total	**169,094**	**25.3%**	163,506	25.4%

The Group's gross profit margin was approximately 25.3% and approximately 25.4% during the Reporting Year and for the corresponding period of last year. The sales of algae products with higher gross profit were higher during the Reporting Year, which helped maintaining the gross profit margin.

Other income and other gains/(losses), net

Other income represents rental income generated from the seaweed farms located in Xiapu, the PRC and interest income from bank deposits and secured loan receivable.

Selling and distribution expenses

Selling and distribution expenses primarily consist of salaries and employee benefit expenses for employees engaging in the sales and promotion activities, transportation expenses, advertising and promotion expenses, rental expenses and other expenses. As a percentage of revenue, our selling and distribution expenses amounted to approximately 8.2% and 3.7% for the year ended 31 December 2018 and 2017, respectively. This increase was primarily due to the Group's efforts on promotion and advertising on the products in new markets.

Administrative expenses

Administrative expenses primarily consist of salaries and employees benefit expenses, rental expenses, office expenses, depreciation and others. As the Company had no listing expenses incurred in 2018, as a percentage of revenue, our administrative expenses significantly reduced from approximately 5.4% for the year ended 31 December 2017 to approximately 1.7% for the Reporting Year.

Income tax expenses

Income tax expense primarily consists of Enterprise Income Tax of Xiamen Wofan Foodstuffs Company Limited and Fujian Wofan Foodstuffs Company Limited, the applicable tax rate of which being 25%. For the year ended 31 December 2018 and 2017, income tax expense were approximately RMB28.0 million and RMB34.2 million, respectively. As the Group had no listing expenses incurred (which are non-deductible) during the period, the effective tax rates reduced to approximately 26.8% for the year ended 2018 (for the corresponding period of last year: 32.7%).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "**BVI**"), we are not subject to any income tax in the Cayman Islands or the BVI.

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong.

Liquidity and financial resources and capital structures

Cash flows

During the Reporting Year, the Group funded its working capital and other capital requirements principally by cash generated from our operating activities and the net proceeds from initial public offering.

Net current assets

Net current assets increased from approximately RMB364.7 million as at 31 December 2017 to approximately RMB371.1 million as at 31 December 2018. The increase was primarily attributable to an increase in inventories and decrease in trade payables.

Cash and cash equivalent and bank borrowings

During the Reporting Year, the Group maintained a healthy liquidity position. As at 31 December 2018, cash and cash equivalents of the Group was approximately RMB234.3 million, as compared to approximately RMB285.2 million as at 31 December 2017 and the Group has no bank borrowings.

Gearing ratio

As at 31 December 2018, the gearing ratio (calculated by total debt divided by the total equity as at the end of the year) remained nil.

Capital expenditures

For the year ended 31 December 2018, the Group had capital expenditure of approximately RMB37.1 million (Year ended 31 December 2017: RMB35,000). The expenditure was mainly related to the purchase of product testing equipment and packaging equipment.

Pledge of assets

As at 31 December 2018, the Group did not pledge any assets.

Use of net proceeds from initial public offering

The shares of the Company were listed on the Main Board of the Stock Exchange on 18 July 2017 with net proceeds from the global offering of approximately HK$123.3 million (after deduction of underwriting fees and commissions and expenses paid in connection with the global offering). According to the intended use as set out in "Future Plans and Use of Proceeds" in the prospectus published on 30 June 2017 (the "**Prospectus**"), the amount utilized as at 31 December 2018 was as follows:

		Net proceeds *(HK$ million)*		
	Percentage	**Available**	**Utilised**	**Unutilised**
Enhance the market access and deepening the penetration of Northern China and Central Western China	36.3%	44.8	34.3	10.5
Acquire new packaging equipment and establishing the quality control and testing centre	29.1%	35.9	35.9	–
Diversify and increase the sales and promotion efforts	24.6%	30.3	19.6	10.7
General working capital	10.0%	12.3	12.3	–

The Company has no intention to use the proceeds contrary to the description as stated in the Prospectus.

Significant investment, material acquisitions and disposals of subsidiaries and associated companies

There was no significant investment, material acquisition and disposal of subsidiaries by the Company during the Reporting Year. The Group currently has no plan to make any substantial investment in or acquisition of capital assets, but will continue to seek for potential investment or acquisition opportunities according to the Group's development needs.

Exchange risk exposure

The Group mainly operates in the PRC and most of its operating transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the Reporting Year.

Employees

As at 31 December 2018, the Group had 645 full time employees in total (31 December 2017: 466). The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. The package includes salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

Final dividend

The Board did not recommend the payment of a final dividend for the year ended 31 December 2018 to the shareholders.

Events after the reporting period

The Group has no material events after the reporting period.

Outlook

In the past 12 years, Shenghai Food enjoyed rapid growth accompanying with the China's economy. The improvement of social security system, the increase in household income and purchase power of residents, as well as the greater acceptance towards nutritive value of seafood drove the growth of seafood and algae market. However, individual consumer confidence was affected by the trade dispute between the United States and China resulting in slowdown of manufacturing and exporting industries, as well as by the depressed stock market and real estate market in China. Since seafood and algae are consumer discretionary, their demands are expected to decrease significantly. The status of listing and sufficient cash flows of the Company lay a solid foundation for Shenghai to pursue growth. From the prospective of China's economic structure, China encourages credit easing to help enterprises to go through the transition. As such, the Group has commenced to study the feasibility of stepping into the financial market, and will spare no effort to gain momentum of growth for the Group through proactively pursuing merger and acquisitions opportunities by making the best of the financial strength of the Company.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board considers that up to the date of this announcement, in the opinion of the Board, the Company has complied with the CG Code except the following deviations:

Code provision E.1.2 of the CG Code requires the chairman of the board to invite the chairmen of the Audit, Remuneration, Nomination and any other committees (as appropriate) to attend the annual general meeting. In their absence, he should invite another member of the Committee or failing this his duly appointed delegate, to attend. Due to other business commitments, the chairmen and members of the Audit, Remuneration and Nomination committees of the Company could not attend the annual general meeting of the Company held in May 2018.

Code provision A.2.7 of the CG Code requires that the chairman of the Board shall at least annually hold meetings with Independent Non-executive Directors without the presence of other Directors. As Mr. Liu Rongru serves as the Chairman and Executive Director concurrently, the code provision does not apply and the Company deviates from such code provision. In addition, the Chairman of the Board is of the view that, the Independent Non-executive Directors can express their opinions to all Executive Directors more directly and effectively at the Board meetings, hence the Board is of the view that the deviation from the code provision does not have material impact on the operation of the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has since 22 June 2017 adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code during the year.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established an Audit Committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. The Audit Committee comprises three Independent Non-executive Directors of the Company, Ms. Cheng Shing Yan, Mr. Huang Xingluan and Mr. Liu Dajin. Ms. Cheng Sing Yan serves as the chairlady of the Audit Committee of the Company. The chairman of the Audit Committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The Audit Committee of the Company has agreed with the external auditors of the Group, BDO Limited, and has reviewed the accounting principles and practices adopted by the Group and the consolidated results of the Group for the year ended 31 December 2018. The Audit Committee considered that the consolidated results of the Group for the year ended 31 December 2018 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2018 to the shareholders.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company will be held on Wednesday, 15 May 2019. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Wednesday, 8 May 2019 to Wednesday, 15 May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares, accompanied by the relevant share certificates, 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, for registration not later than 4:30 p.m. on Tuesday, 7 May 2019.

PUBLICATION OF 2018 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xmwofan.com), and the 2018 annual report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

APPRECIATION

I would like to take this opportunity to express my thanks and gratitude to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, suppliers, customers and bankers for their continuous support.

On behalf of the Board of
China Shenghai Food Holdings Company Limited
Jiang Dehua
Executive Director

Xiamen, the People's Republic of China, 22 March 2019

As at the date of this announcement, the board of directors of the Company comprises three Executive Directors, namely Mr. Liu Rongru (Chairman), Mr. Jiang Dehua and Mr. Chak Chi Shing, and three Independent Non-executive Directors, namely, Mr. Liu Dajin, Mr. Huang Xingluan and Ms. Cheng Shing Yan.