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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 2019

The Board is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 ("**Year 2019**" or the "**Reporting Year**"), together with the comparative figures for the corresponding period in 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(Expressed in Renminbi)

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Revenue	4	**472,888**	667,958
Cost of sales		**(369,119)**	(498,864)
Gross profit		**103,769**	169,094
Other income and other gains/(losses), net	5	**1,272**	2,363
Selling and distribution expenses		**(43,734)**	(54,575)
Administrative expenses		**(14,098)**	(11,553)
Expected credit loss on financial assets		**(261)**	(72)
Finance costs	6	**(226)**	-
Other expenses		**(693)**	(842)
Profit before income tax	7	**46,029**	104,415
Income tax expense	8	**(15,189)**	(28,001)
Profit for the year attributable to owners of the Company		**30,840**	76,414
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**(13)**	547
Other comprehensive income for the year		**(13)**	547
Profit and total comprehensive income for the year attributable to owners of the Company		**30,827**	76,961
Earnings per share – Basic and Diluted (RMB)	10	**0.0308**	0.0764

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

(Expressed in Renminbi)

	Notes	**2019** *RMB'000*	2018 *RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**67,356**	34,913
Deferred tax assets		**372**	281
Prepaid lease payments		**-**	79
Deposits paid to suppliers		**5,746**	5,616
Prepayments		**3,150**	-
Prepayment for acquisition of plant and equipment		**-**	35,000
		76,624	75,889
Current assets			
Inventories	11	**79,106**	70,306
Trade receivables	12	**102,278**	109,942
Deposits, prepayments and other receivables		**8,258**	12,713
Cash and cash equivalents		**242,578**	234,253
		432,220	427,214
Current liabilities			
Trade payables	13	**8,716**	39,910
Accruals, deposits received and other payables		**12,668**	7,271
Lease liabilities		**1,065**	-
Provision for taxation		**5,501**	8,918
		27,950	56,099
Net current assets		**404,270**	371,115
Total assets less current liabilities		**480,894**	447,004

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

(Expressed in Renminbi)

	Notes	**2019** **RMB'000**	2018 RMB'000
Total assets less current liabilities		**480,894**	447,004
Non-current liabilities			
Accruals, deposits received and other payables		**900**	-
Lease liabilities		**2,163**	-
		3,063	-
Net assets		**477,831**	447,004
CAPITAL AND RESERVE			
Share capital		**8,723**	8,723
Reserves		**469,108**	438,281
Total equity		**477,831**	447,004

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.

(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 Hong Kong dollar ("HKD"), while the financial statements are presented in Renminbu ("**RMB**").

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

(a) Adoption of new / revised HKFRSs – effective from 1 January 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures

Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the group's accounting policies.

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of right-of-use assets and lease liabilities at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	RMB'000
Statement of financial position as at 1 January 2019	
Right-of-use assets presented in plant and equipment	5,684
Prepaid lease payment	(129)
Lease liabilities (non-current)	4,195
Lease liabilities (current)	1,360

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 January 2019:

	RMB'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment as of 31 December 2018	7,210
Less: Commitments relating to leases exempt from capitalisations:	
Short-term lease and other leases with remaining lease term ending on or before 1 January 2020	(1,082)
Less: future interest expenses	(573)
Add: Finance leases liabilities as of 31 December 2018	-
Total lease liabilities as of 1 January 2019	5,555

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 is 4.75%.

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 and measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKAS 19 – Plan amendments, curtailment or settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

Amendments to HKFRS 9 - Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to HKAS 28 - Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

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.

Disaggregated revenue information

	2019	2018
	RMB'000	*RMB'000*
Revenue from contract customers		
Dried seafood	**246,108**	335,311
Algae and fungi	**190,283**	275,506
Seafood snacks	**36,497**	57,141
	472,888	667,958
Geographical market		
Mainland China	**472,888**	667,958
Timing of revenue recognition		
Sales at point in time	**472,888**	667,958

Unsatisfied performance obligations

For sales of marine products, the performance obligation are satisfied and revenue was recognised at a point in time when control of the goods has transferred to the customer. No unsatisfied performance obligation at the end of the each reporting years.

Information about major customers

No customer contributed 10% or more of the Group's revenue during the year ended 31 December 2019. (2018: 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

	2019	2018
	RMB'000	*RMB'000*
Interest income on bank deposits	**866**	1,069
Interest income on secured loan receivables	**329**	1,242
Loss on disposal of plant and equipment	**(1)**	(3)
Rental income	**55**	55
Gain on early termination of lease	**23**	-
Total	**1,272**	2,363

6. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on lease liabilities	**221**	-
Others	**5**	-
Total	**226**	-

7. PROFIT BEFORE INCOME TAX

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

	2019	2018
	RMB'000	*RMB'000*
Auditors' remuneration	**952**	914
Amortization of prepaid lease payments	**-**	50
Costs of sales (Note)	**369,119**	498,864
Research expenditure	**690**	789
Depreciation charge		
- Property, plant and equipment	**12,199**	2,298
Impairment loss on trade receivables	**851**	67
Reversal of Impairment loss on deposits paid to suppliers	**(130)**	(145)
(Reversal of)/impairment loss on loan receivables	**(460)**	150
Operating lease rental in respect of:		
- Rented premises	**-**	2,424
- Short-term lease expenses	**1,325**	-
Staff costs (including directors' emoluments)		
- Salaries and wages	**34,880**	30,446
- Bonus	**468**	182
- Retirement scheme contribution	**4,039**	3,381

Note: Cost of sales are mainly comprised of cost of inventories recognised as expenses, which amounting to RMB346,669,000 (2018: RMB471,546,000).

8. INCOME TAX EXPENSE

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

	2019	2018
	RMB'000	*RMB'000*
Current tax		
Tax for the year	**12,723**	27,384
Under-provision in respect of prior year	**744**	612
Deferred tax		
Current year	**1,722**	5
Total	**15,189**	28,001

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 2019 and 2018 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 2019 and 2018.

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:

	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**46,029**	104,415
Tax thereon at domestic rates applicable to profit or loss in the jurisdictions concerned	**11,921**	26,539
Under-provision in prior year	**744**	612
Tax effect of expenses not deductible for tax purposes	**1,373**	56
Tax effect of revenue not taxable for tax purpose	**(11)**	-
Tax effect of tax losses not recognised	**1,162**	794
Income tax expense for the year	**15,189**	28,001

9. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

10. BASIC AND DILUTED EARNINGS PER SHARE

	2019	2018
	RMB'000	*RMB'000*
Profits		
Profit attributable to owners of the Company	**30,840**	76,414

	2019	2018
	Number'000	*Number'000*
Number of shares		
Weighted average number of ordinary shares (note)	**1,000,000**	1,000,000

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 2019 and 2018.

11. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**15,064**	13,752
Finished goods	**64,042**	56,554
	79,106	70,306

During the year, no write-down of inventories has been made (2018: Nil).

12. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**103,566**	110,379
Less: loss allowance	**(1,288)**	(437)
	102,278	109,942

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

	2019	2018
	RMB'000	*RMB'000*
0 – 30 days	**40,589**	73,329
31 – 60 days	**36,219**	34,245
61 – 90 days	**22,072**	2,368
Over 90 days	**3,398**	-
	102,278	109,942

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

	2019	2018
	RMB'000	*RMB'000*
Carrying amount at 1 January	**437**	-
Effect of adoption of HKFRS 9	**-**	370
Carrying amount at 1 January (restated)	**437**	370
Expected credit losses recognised	**851**	67
Carrying amount at 31 December	**1,288**	437

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

13. TRADE PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**8,716**	39,910

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 2019and 2018 are as follows:

	2019	2018
	RMB'000	*RMB'000*
0 – 30 days	**8,716**	39,910

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 2019 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 2019. 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

The Group sells dried seafood, algae and fungi, and seafood snacks in the PRC. The Group (i) sources high quality raw and processed raw materials, (ii) sub-contracts processing of the unprocessed raw materials to third parties, (iii) packages products at its own packaging facilities or through its 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.

The Group's revenue decreased by approximately 29.2% to approximately RMB472.9 million in the Reporting Period from approximately RMB668.0 million for the year ended 31 December 2018. China's GDP growth was 6.1% in 2019, as compared to 6.6% in 2018. This is the lowest growth rate since records began in March 1992, as the economy begins to show signs of pressure from the ongoing US trade war.

The Group's gross profit for the Reporting Period fell by 38.6% to approximately RMB103.8 million in the Reporting Period from RMB169.1 million in the year ended 31 December 2018, while the gross margin fell from 25.3% in the year ended 31 December 2018 to 21.9% in the Reporting Period.

The Group has a comprehensive product portfolio with different raw materials, flavouring and packaging and considers each product to be distinctive. The Group seeks to differentiate itself from its competitors by providing a broad and convenient choice of safe and quality products, which creates additional opportunities to drive the overall sales. During the Reporting Period, the Group offered over 100 dried seafood, 30 algae and fungi, and 60 seafood snacks products.

The Group's products are sold through supermarkets, trading companies, convenience stores and other sales channels, such as food companies, gift stores and e-commerce retailers. During the Reporting Period, products sold through supermarkets continued to be the major revenue source to the Group sales and the proportions for revenue contributed for each of the above channels remained consistent as compared to the year ended 31 December 2018.

The revenue decline of the Group during the Reporting Period was driven by the US-China trade war, which resulted in a slump in domestic demand as well as lower Chinese consumer confidence. The sustainable growth of the Group relies on the proven sales records and stable supply of its wide ranges of products.

Operating results and financial review

Revenue

During the Reporting Period, the Group's revenue decreased by approximately 29.2% to approximately RMB472.9 million from approximately RMB668.0 million for the year ended 31 December 2018, primarily due to decreases in both sales volume and average selling prices.

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

	Year ended 31 December			
	2019	**% to total**	2018	% to total
	RMB'000	**revenue**	*RMB'000*	revenue
Dried seafood	**246,108**	**52.1%**	335,311	50.2%
Algae and fungi	**190,283**	**40.2%**	275,506	41.2%
Seafood snacks	**36,497**	**7.7%**	57,141	8.6%
Total	**472,888**		667,958	

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

	Year ended 31 December			
	2019	**% to total**	2018	% to total
	RMB'000	**revenue**	*RMB'000*	revenue
Supermarkets	**247,455**	**52.3%**	354,662	53.1%
Trading companies	**104,528**	**22.1%**	156,538	23.4%
Convenience stores	**25,575**	**5.4%**	30,987	4.6%
Others	**95,330**	**20.2%**	125,771	18.9%
Food companies	**37,813**	**8.1%**	44,212	6.6%
Gift stores	**23,097**	**4.9%**	39,459	5.9%
E-commerce retailers	**32,125**	**6.8%**	37,630	5.7%
Others	**1,731**	**0.3%**	3,909	0.6%
Self-operated website	**564**	**0.1%**	561	0.1%
Total	**472,888**		667,958	

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			
	2019	**Gross profit margin**	2018	Gross profit margin
	RMB'000	**(%)**	*RMB'000*	(%)
Dried seafood	**53,915**	**21.8%**	84,798	25.3%
Algae and fungi	**42,627**	**22.3%**	71,041	25.8%
Seafood snacks	**7,227**	**19.7%**	13,255	23.2%
Total	**103,769**	**21.9%**	169,094	25.3%

The Group's gross profit margin was approximately 21.9% and approximately 25.3% during the Reporting Year and for the corresponding period of last year. The decrease in gross profit margin was mainly due to the increase in raw materials costs during the year.

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 9.2% and 8.2% for the year ended 31 December 2019 and 2018, respectively. This increase was primarily due to the decrease in revenue of the Group during the Reporting Year.

Administrative expenses

Administrative expenses primarily consist of salaries and employees benefit expenses, rental expenses, office expenses, depreciation and others. As a percentage of revenue, our administrative expenses increased from approximately 1.7% for the year ended 31 December 2018 to approximately 3.0% for the Reporting Year, mainly due to the decrease in revenue of the Group during 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 2019 and 2018, income tax expense were approximately RMB15.2 million and RMB28.0 million, respectively. The effective tax rates was approximately 33.0% for the year ended 2019 (for the corresponding period of last year: 26.8%).

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 RMB371.1 million as at 31 December 2018 to approximately RMB404.3 million as at 31 December 2019. The increase was primarily attributable to an increase in inventories and cash and cash equivalents 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 2019, cash and cash equivalents of the Group was approximately RMB242.6 million, as compared to approximately RMB234.3 million as at 31 December 2018 and the Group has no bank borrowings.

Gearing ratio

As at 31 December 2019, the gearing ratio (calculated by total debt divided by the total equity as at the end of the year) was 0.002 (31 December 2018: Nil).

Capital expenditures

For the year ended 31 December 2019, the Group's capital expenditure amounted to approximately RMB5.9 million (Year ended 31 December 2018: approximately RMB37.1 million).

Pledge of assets

As at 31 December 2019, 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"). As at 31 December 2019, all of the net proceeds from the global offering has been utilized.

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 2019, the Group had 554 full time employees in total (31 December 2018: 645). 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 2019 to the shareholders.

Events after the reporting period

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The COVID-19 has certain impacts on the business operation and customer demand for the Group's products has further declined. In addition, to ensure the health and safety of its employees and customers, the Group has suspended all product promotion activities, which will directly affect the Group's turnover and performance. Up to the date of the report, the financial effect cannot be estimate. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group.

Outlook

Over the past couple of years, individual consumer confidence was affected by 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.

On 13 December 2019, the US and the PRC government officials announced that they have entered into a preliminary trade agreement and on 15 January 2020, the US and the PRC government signed the phase one agreement aimed at easing the Sino-US trade war. Although the immediate threat of further escalation has stopped, the Group believes the trade tension between US and China will continue to put downward pressure on Chinese consumer confidence. Since seafood and algae are consumer discretionary, their demands are expected to decrease significantly. The management is taking every precautious step to mitigate the Group’s market exposure and diverse the Group’s portfolio. As such, the Group is no longer pursuing the purchase of land in mainland China due to the economic uncertainty ahead. Instead, the Group will rent additional factory areas as considered necessary to maximize the Group’s organic growth prospects. At the same time, since the outbreak of the new coronavirus (the “Epidemic”) in China since January 2020, the Group's operations have been seriously affected, and customer demand for the Company's products has further declined. In addition, to ensure the health and safety of its employees and customers, the Group has suspended all product promotion activities, which will directly affect the Group's turnover and performance. Considering the impact of the Epidemic in various aspects, the Group believes that this opportunity should be taken to further expand its businesses other than food products in order to balance its business risks.

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 A.2.1of the Code, which stipulates that the roles of chairman and chief executive officer should be separated. The joint-chairman and the chief executive officer of the Company is Mr. Liu Rongru. Nevertheless, the Board considers that this structure will not impair the balance of power and the authority of the Board. The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors, with independent non-executive Directors representing half of the Board. Such percentage of independent non-executive Directors on the Board can ensure their views carry significant weight and reflect the independence of the Board. Mr. Liu Rongru is the founder of the Group and he is responsible for the overall strategic planning and management of the Group. He has played an important role during the Group’s expansion. Mr. Liu Rongru has extensive experience in the seafood industry, having been engaged in the seafood business for over 20 years. At present, the Board believes that it is beneficial to the management and development of the Group’s businesses for Mr. Liu Rongru to be both the chairman and chief executive officer as it helps to facilitate the Board’s decision-making.

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 Joint-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, Mr. Pang Wai Ching, Mr. Liu Junting and Mr. Liu Dajin. Mr. Pang Wai Ching serves as the chairman 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 2019. The Audit Committee considered that the consolidated results of the Group for the year ended 31 December 2019 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 2019 to the shareholders.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company will be held on Wednesday, 25 May 2020. 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, 20 May 2020 to Wednesday, 25 May 2020, 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, 19 May 2019.

PUBLICATION OF 2019 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 2019 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
Liu Rongru
Joint-Chairman and Chief Executive Officer

Xiamen, the People's Republic of China, 23 March 2020

As at the date of this announcement, the non-executive director of the Company is Mr. Li Dongfan; the executive directors of the Company are Mr. Liu Rongru and Ms. Li Jiayin and the independent non-executive directors of the Company are Mr. Liu Dajin, Mr. Liu Junting and Mr. Pang Wai Ching.